ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

IN THE MATTER OF THE GENERIC PROCEEDINGS CONCERNING ELECTRIC RESTRUCTURING ISSUES.

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TUCSON ELECTRIC POWER COMPANY'S FIRST RESPONSE TO COMMISSION QUESTIONS

February 25, 2002

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Tucson Electric Power Company ("TEP"), through undersigned counsel, hereby submits its First Response to Commission Questions as follows:

1. INTRODUCTION.

TEP supports the Commission's decision to re-evaluate the prudence of interjecting competition into the provision of retail electric service in Arizona.

The availability of economical, reliable and safe electric service is a necessity of modern life. The Commission has been constitutionally charged with protecting the public interest and ensuring that electric service is provided in a non-discriminatory manner and at just and reasonable rates. TEP believes the Commission is acting in the public interest by monitoring the status of electric competition at this point in time and, if appropriate, modifying or abandoning imprudent policies and practices.

The Commission first approved the Electric Competition Rules in 1996. At that time electric competition was non-existent in Arizona and in its infancy in a few other states. Discussions regarding how best to adopt a framework for competition and how to transition from a regulated-monopoly environment to a competitive marketplace were mostly theoretical. Moreover, the anticipated impacts of competition on incumbent utilities and consumers were based primarily on "best estimates."

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Today, the Commission can evaluate electric competition with the assistance of five years of actual experience in Arizona and other states. It can weigh the benefits of actual successes against the costs of real setbacks. It can review which predictions came true, which fell short and why. It can analyze the unexpected events that detracted from the original promise of electric competition. It can determine how to avoid the problems encountered by California and the failure of Enron. Most importantly, the Commission can review actual data and events to determine if retail electric competition jeopardizes or enhances the provision of economical, reliable and safe electric service to the citizens of Arizona. TEP believes that ultimately the Commission will need to determine whether it is in the public interest for the price of electricity to be determined by a competitive marketplace--one that in Arizona (presently and in the foreseeable future) is driven by natural gas prices. TEP also believes it is paramount for the Commission to consider, given the recent volatility of the wholesale market, whether to authorize a portfolio of supply contracts for UDC Standard Offer service.

TEP recognizes that the submission of questions by the Commissioners is only one step in the Commission's re-evaluation of electric competition. TEP anticipates additional proceedings will be necessary in the event the Commission determines the Electric Competition Rules should be modified or repealed. TEP reserves the right to supplement its answers to the questions addressed herein and to provide additional information in support of, or in opposition to, the positions taken by any other interested party in these proceedings.

2. CHRONOLOGY OF RETAIL ELECTRIC COMPETITION IN ARIZONA.

TEP believes a review of significant events that have occurred in connection with the creation and implementation of the Electric Competition Rules will help put into context the current status of retail electric competition in Arizona.[1]

[1] TEP acknowledges that this chronology does not contain other collateral events such as the issuances of all CC&Ns and CECs and the filing of all motions in the appeal cases.

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A. Commission Proceedings.

On December 26, 1996, the Commission issued Decision No. 59943, which adopted A.A.C. R14-2-1601 et seq., (the "Electric Competition Rules").

On June 22, 1998, the Commission issued Decision No. 60977, which addressed the issue of Stranded Cost recovery and offered two approaches for utilities to recover their stranded costs (the "Stranded Cost decision").

On August 10, 1998, the Commission issued Decision No. 61071, which adopted revised rules A.A.C. R14-2-203-204; 208-211; 1601; and 1603- 1616 and new rules A.A.C. R14-2-1617-1618, on an emergency basis (collectively the "First Electric Competition Rules revisions").

On November 25, 1998, the Commission issued Decision No. 61259, which established a procedural schedule for hearings on Settlement Agreements entered into between Staff and (1) Arizona Public Service Company ("APS"); and (2) TEP.[2]

On December 11, 1998, the Commission issued Decision No. 61272, which permanently adopted the First Electric Competition Rules revisions.

On December 30, 1998, the Commission issued Decision No. 61303, which granted a CC&N to PG&E Energy Services, Inc. the first energy services provider to obtain a CC&N pursuant to the Electric Competition Rules.

On December 14, 1998, the Commission issued Decision Nos. 61282, 61283 and 61284 which approved the unbundled and Standard Offer service tariffs for Graham County Electric Cooperative ("Graham"), Navopache Electric Cooperative ("Navopache") and Trico Electric Cooperative ("Trico").

[2] This decision was the subject of a "Verified Petition for Special Action and Writ of Mandamus" filed with the Arizona Supreme Court on November 30, 1998, seeking a stay of the Commission's consideration of the Settlement Agreements. The Arizona Supreme Court issued a stay and the Settlement Agreements were subsequently withdrawn.

On December 31, 1998, the Commission issued Decision No. 61309, which denied applications for rehearing and/or reconsideration of Decision No. 61272.

On January 11, 1999, the Commission issued Decision No. 61311, which vacated Decision No. 61309, granted reconsideration of Decision No. 61272 and stayed the Electric Competition Rules and related decisions.

On April 23, 1999, the Commission issued Decision No. 61634, which ordered that additional proposed amendments to the Electric Competition Rules be forwarded to the Secretary of State, that public comment hearings be scheduled thereon and eliminated the Solar Portfolio Standard ("Second Electric Competition Rules revisions").

On April 27, 1999, the Commission entered Decision No. 61677, which amended the Stranded Cost decision and expanded (from two to five) the number of Stranded Cost recovery options.

On September 29, 1999, the Commission issued Decision No. 61969, which adopted the Second Electric Competition Rules revisions and ordered the formation of a Process Standardization Working Group to review transaction-processing methods used by market participants.

On October 6, 1999, the Commission issued Decision No. 61973, which approved a new Settlement Agreement with APS regarding the terms and conditions for the introduction of competition in generation and other competitive services, including APS' unbundled and Standard Offer service tariffs.

On November 30, 1999, the Commission entered Decision No. 62103, which approved a new Settlement Agreement with TEP regarding the terms and conditions for the introduction of competition in generation and other competitive services, including TEP's unbundled and Standard Offer service tariffs.

On April 18, 2000, the Commission issued Decision No. 62445, which denied Arizona Electric Power Cooperative, Inc.'s ("AEPCO") application for a waiver of portions of A.A.C. R14-2-1609.

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On April 18, 2000, the Commission issued Decision No. 62446, which denied APS' application for a waiver of portions of A.A.C. R14-2-1609.

On April 18, 2000, the Commission issued Decision No. 62447, which denied TEP's application for a waiver of portions of A.A.C. R14-2-1609.

On May 4, 2000, the Commission issued Decision No. 62506, which adopted an Environmental Portfolio Standard ("EPS") and ordered that a rulemaking process be commenced in connection therewith.

On July 25, 2000, the Commission issued Decision No. 62748, wherein the Commission directed that a hearing be held on additional amendments to the Electric Competition Rules proposed by the electric cooperatives ("Third Electric Competition Rules revisions").

On July 27, 2000, the Commission issued Decision No. 62758, which approved AEPCO's competition transition charge and approved its Settlement Agreement with several customers.

On October 10, 2000, the Commission issued Decision No. 62924, which adopted the Third Electric Competition Rules revisions.

On August 3, 2001, the Commission issued a procedural order ("AISA Procedural Order") in which it requested that parties respond to various questions regarding the Arizona Independent Scheduling Administrator ("AISA").

On September 5, 2001 TEP submitted its comments in response to the AISA Procedural Order.

In November 13, 2001, the Staff submitted its comments regarding the AISA and suggested that the Commission reconsider the status of electric competition.

On October 18, 2001, APS filed an Application for a variance to R14-2-1606.B and R14-2-1615.A (the "APS Variance Application").

On December 5, 2001, Chairman Mundell and Commissioner Spitzer filed letters in the APS Variance Application docket expressing the desire to revisit the Electric Competition Rules.

On January 14, 2002, Chairman Mundell issued a letter in which he (a) directed the Chief Administrative Law Judge to open a generic docket regarding the Electric Competition Rules and to consolidate it with the APS Variance Application case and A.C.C. Docket No. E-00000A-01-0630 (the "AISA case"); and (b) invited parties to respond by February 1, 2002, to questions he provided as an attachment to the letter.

On January 16, 2002, APS filed its comments in response to the AISA Procedural Order.

On January 22, 2002, the Commission issued a Procedural Order, opening this docket for generic proceedings concerning electric restructuring issues and providing parties until February 25, 2002, to respond to Commission questions.

On January 24, 2002, Commissioner Spitzer issued a letter setting forth a set of questions regarding competition related matters, for response by interested parties.

On January 28, 2002, TEP filed its Request for a Variance to R14-2-1606.B and R14-2-1615.A in which it requested that compliance deadlines be extended until issues regarding the re-evaluation of electric competition were resolved.

On January 29, 2002, the Commission approved Decision No. 64391, which cancelled PG&E Energy Services, Inc.'s CC&N.

On January 30, 2002, Chairman Mundell issued a letter with additional questions, related to issues raised by the bankruptcy filing of Enron, for response by interested parties.

On February 7, 2002, Commissioner Irvin issued a letter stating questions related to electric restructuring, for response by interested parties.

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On February 8, 2002, the Commission issued a Procedural Order consolidating the APS Variance case, TEP Request for a Variance, TEP Motion for Clarification, AISA Case and this docket.

On February 14, 2002, the Commission issued a Procedural Order scheduling a Procedural Conference for February 27, 2002 to determine the scope of the hearing to be held in connection with the TEP Request for a Variance and TEP Motion for Clarification. The hearing date was subsequently rescheduled to March 4, 2002.

B. Legal Proceedings.

(i) Litigation Regarding The Electric Competition Rules.

During February and March 1997, TEP, APS, AEPCO, Trico Electric Cooperative, Inc. ("Trico"), and the Residential Utility Consumers Office ("RUCO") filed appeals of the Electric Competition Rules with the Arizona Court of Appeals under A.R.S. § 40-254.01 (the "Court of Appeals filings"). The utilities then filed motions to dismiss their own appeals for lack of jurisdiction. On June 19, 1997, the Court of Appeals consolidated and granted the motions to dismiss the appeals, ruling that the order promulgating the Electric Competition Rules did not relate to rate making or rate design. *Arizona Public Service Co. v. Arizona Corp. Comm'n*, 189 Ariz. 192, 194, 939 P.2d 1345 (App. 1997).

During the same period that the Court of Appeals filings were made, APS, TEP, Citizens, AEPCO, Graham, Trico, Duncan Valley Electric Cooperative, Inc. ("Duncan") and Sulphur Springs Valley Electric Cooperative, Inc. ("Sulphur Springs") (all of the cooperatives collectively referred to as the "Cooperatives"), also filed Superior Court actions challenging the Electric Competition Rules. Some of those cases were assigned to Judge Colin Campbell and others to Judge B. Michael Dann. *Tucson Electric Power*

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Company v. Arizona Corporation Commission, Maricopa County Cause No. CV 97-03748 (consolidated; "TEP Action").[3]

TEP moved for partial summary judgment in the TEP Action, and the Commission filed a cross-motion. The Court (Judge Campbell) denied TEP's motion and granted the Commission partial summary judgment but ultimately ruled that (1) TEP has an exclusive right under its CC&N to service customers within its certificated area; and (2) A.R.S § 40-252 requires the Commission to hold a hearing before it modifies TEP's CC&N by granting a competing CC&N to any other company.

The Cooperatives also filed motions for summary judgment to which the Commission filed cross-motions. The Court (Judge Dann) denied the Cooperatives' motions for summary judgment and granted the Commission's cross-motion. The Court ruled that the utilities' CC&Ns are not vested property rights.

On March 5, 1998, the Cooperatives filed a Special Action in the Supreme Court on Judge Dann's ruling. However, on April 23, 1998, the Supreme Court declined to accept jurisdiction of the Special Action without prejudice to refilling the Special Action in the Arizona Court of Appeals.

On April 3, 2000, (after all the cases were consolidated) the Cooperatives filed new motions for summary judgment with the Court.

On November 28, 2000, the Court granted the Cooperatives' motions for summary judgment and denied the cross-motion filed by the Commission Staff. The Court voided the Electric Competition Rules and orders granting CC&Ns to new electric service providers on two grounds. The first is that there was no fair value rate base determination provided for in any of the rules or orders. The second is that certain rules were not

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[3] Pursuant to an order by Civil Presiding Judge Roger W. Kaufman, all of the appeals were subsequently consolidated into the TEP Action. *See* Minute Entry dated November 12, 1997.

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submitted to the Attorney General as required by state law (the "Cooperative's summary judgment").

On December 21, 2000 the Commission appealed the Cooperative's summary judgment to the Arizona Court of Appeals.

On December 27, 2000, Arizonans for Electric Choice and Competition ("AECC") and RUCO filed their appeals to the Cooperatives' summary judgment with the Arizona Court of Appeals.

On January 2, 2001, AEPCO, Duncan and Graham filed cross-appeals with the Arizona Court of Appeals. Trico and Sulphur Springs filed their cross-appeals on January 3, 2001.

On January 8, 2001, Arizona Consumer Council filed its appeal of the Cooperative's summary judgment to the Arizona Court of Appeals. These appeals were consolidated and are still pending.

On November 29, 2001, pursuant to the TEP Settlement Agreement, TEP and the Commission stipulated to dismiss the all of the appeals filed by TEP.

On January 11, 2002, APS, pursuant to its Settlement Agreement, filed a stipulation to dismiss all of its appeals.

(ii) Litigation Regarding The Settlement Agreements.

In the fall of 1998, TEP and APS had each separately negotiated Settlement Agreements with the Commission Staff regarding issues related to retail electric competition.

On November 25, 1998, before the Commission considered the Settlement Agreements, the Attorney General filed with Superior Court a Motion for Writ of Mandamus/Temporary Restraining Order (with notice) to prevent the Commission from considering the Settlement Agreements. The Court denied the Attorney General's motion.

On November 30, 1998, the Arizona Attorney General, RUCO, the Arizona Transmission Dependent Utility Group, Arizona Consumer-Owned Systems, (Electrical

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District No. 3 of Pinal County, Electrical District No. 7 of Maricopa County, Maricopa County Municipal Water Conservation District) and Irrigation and Electric District Association of Arizona filed with the Arizona Supreme Court a Special Action seeking to enjoin the Commission from approving the Settlement Agreements. On December 1, 1998, the Arizona Supreme Court granted the Special Action and issued a stay precluding the Commission from considering the Settlement Agreements.

On December 9, 1998, the Commission Staff filed with the Commission a "Notice of Withdrawal of Settlements."

On December 22, 1998, as a consequence of the withdrawal of the Settlement Agreements and mootness of the Commission's related procedural orders, the Arizona Supreme Court dismissed the Verified Petition for Special Action and Writ of Mandamus and dissolved the stay.

On November 30, 1999, the Commission approved a new Settlement Agreement among TEP, Commission Staff and other parties. *See* Decision No. 62103 ("Second TEP Settlement Decision").

On November 30, 1999, the Commission also approved a new Settlement Agreement among APS, Commission Staff and other parties. *See* Decision No. 61973 ("Second APS Settlement Decision").

On December 13, 1999, the Arizona Consumers Council appealed the Second APS Settlement Decision to the Arizona Court of Appeals.

On February 8, 2000, The Arizona Consumers' Council appealed Decision No. 62103 to the Superior Court and the Court of Appeals.

On September 20, 2000, the Arizona Appeals Court dismissed the appeal of Decision No. 62103 pursuant to a stipulation of the parties.

On April 5, 2001, the Court of Appeals affirmed the Second APS Settlement Decision.

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On May 7, 2001, the Arizona Consumers' Council filed a petition a for review with the Arizona Supreme Court regarding the Court of Appeals affirmation of the Second APS Settlement decision.

On October 5, 2001, the Arizona Supreme Court granted the Arizona Consumers' Council Petition for Review.

On December 14, 2001, after oral argument, the Arizona Supreme Court declined to hear the Arizona Consumer Council's appeal of the APS Settlement Decision.

(iii) Litigation Regarding Stranded Cost Decisions.

On June 22, 1998, the Commission issued Decision No. 60977, which established guidelines for stranded cost recovery ("Stranded Cost Decision"). TEP appealed that Decision to the Superior Court, (*Tucson Electric Power Company v. Arizona Corporation Commission*, Maricopa County Cause No. 98-15767) and that matter was subsequently consolidated into the Consolidated Case. The Stranded Cost Decision was ultimately modified by the Commission and TEP did not appeal the modified order.

On August 10, 1998, the Commission issued amendments to the Competition Rules on an emergency basis (Decision No. 61071). TEP appealed Decision No. 61071 to the Superior Court, but subsequently withdrew the appeal as moot.

3. RESPONSE TO CHAIRMAN MUNDELL'S QUESTIONS DATED JANUARY 14, 2002.

I. Identification of Retail Electric Products and Services for Which Competition Could Bring Benefits

QUESTION:

A. What are the possible goods and services traditionally provided by the electric utility for which retail competition is possible? You may address the following categories of goods and services:

1. generation, including base load, intermediate and peaking power; green power; distributed generation; firm and nonfirm power; long- and short-term contracts; back up and coordination services:

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RESPONSE:

TEP believes that if the Commission proceeds with the current framework that is in place (which allows rates to float with a market driven in a large part by natural gas prices) then retail competition could be possible for (a) all types of base load, intermediate, and peaking power generation; (b) the types of power transactions that currently exist with varying levels of firmness and duration; and (c) derivative instruments related to fuel, emissions and forced outages.

QUESTION:

2. distribution services, including ownership, construction maintenance and repair of the physical lines; metering ownership, installation, reading and data analysis; and the process of planning for and negotiating with distributed generators:

RESPONSE:

(i) <u>Distribution services, including ownership, construction, maintenance and repair of the physical lines (collectively "distribution services")</u>.

TEP believes that it is not in the public interest for distribution services to be subject to competition. The need to provide retail electric service requires that there be a provider of last resort. Under the Electric Competition Rules, the provider of distribution services, the Utility Distribution Company ("UDC"), is also the provider of last resort for retail customers.

(ii) <u>Metering ownership, installation and maintenance</u>.

TEP believes that if retail electric competition is in place then only those UDCs and Electric Service Providers ("ESPs") that are providing energy to customers should be allowed to own, install and maintain meters. This would encourage UDCs and ESPs to develop new technologies for the provision of real time pricing information to the customer, which could enhance decision-making on energy usage. Entities (including customers) that do not provide energy to customers should not be allowed to own and operate meters. Random ownership of electric meters could create problems regarding the accuracy, consistency and maintenance of the meters as well as safety hazards

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associated with the installation and maintenance of meters.

(iii) Meter Reading and Data Analysis.

TEP believes that meter reading and data analysis for standard offer customers should continue to be provided by the UDC, rather than as competitive services. However, for customers who choose to be served by ESPs ("direct access customers"), under the appropriate framework, meter reading and data analysis could be a viable competitive service. Potential benefits to direct access customers from this competitive service might include the development of systems for advanced home monitoring of appliances, as well as security systems. However, a drawback to competitive meter reading and data analysis services would be that regardless of a direct access customer's ESP, the UDC would need to compile necessary customer data to develop a bill for its "wires-related services."

(iv) The process of planning for and negotiating with distributed generators.

TEP believes that planning for and negotiating with distributed generators, including their interconnection to the grid, should not be a competitive service. TEP also believes that while UDCs should be required to interconnect distributed generators to the grid under Federal Energy Regulatory Commission ("FERC") and Commission tariffs, UDCs should not be required to purchase surplus capacity or energy from distributed generators.

QUESTION:

3. aggregation services, such as load profiling; load planning; customer services; data analysis; billing; generation planning; power supply acquisition; DSM, energy efficiency and other services relating to matching supply and demand.

RESPONSE:

TEP believes that aggregation services for customers who do not choose an ESP ("Standard Offer customers"), with the exception of DSM and energy efficiency, should continue to be provided by the UDC rather than as competitive services. TEP believes that under the appropriate framework aggregation services such as; customer services; data analysis; billing; generation planning; power supply acquisition and other services relating to

matching supply and demand could be competitive services. However, with regard to load profiling and load planning, these functions will still have to be performed by the provider of last resort.

QUESTION:

B. For each good or service for which competition is possible, what are the possible benefits of competition for each good and service?

RESPONSE:

Due to an unlimited number of goods and services that may be provided, it would be virtually impossible to address the possible benefits for each one. TEP believes that it would be helpful to respond to the remaining questions in the context of the two specific categories: (1) generation products; and (2) related services.

QUESTION:

1. What are the potential price benefits?

RESPONSE:

Competition in the provision of generation products and related services may result in producers and providers becoming more efficient, thereby reducing customers' costs. Aggregators of products and services may be able to negotiate favorable terms with suppliers to pass on lower prices for their customers. Competition may cause the dissemination of pricing information and the offer of options that will enable customers to choose the lowest prices for the exact generation products and related services that best meet their needs. Also, greater customer awareness of energy consumption may lead to greater energy efficiency, which may also lower customer expense.

QUESTION:

2. Do the potential price benefits differ in the short-term and long-term?

RESPONSE:

Yes, price benefits will generally increase over time with the maturity of the market and saturation of participants (competitors), products and services.

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QUESTION:

3. What are the potential non-price benefits?

RESPONSE:

Competition may spur the creation of new generation products and related services (or combinations thereof) designed for specific customers, thereby creating a greater range of choice. Another non-price benefit of competitive generation products may be that customers will have additional information in order to be able to determine their own "price-risk tolerance." If customers do not want to be subject to the risk of price variation, they may wish to negotiate a fixed price contract. Alternatively, customers may choose to actively manage their energy price risk and enter into a series of shorter contracts.

Also, by providing customers with real-time price signals and the associated load response, they may choose a more efficient use of existing generation. Another potential indirect benefit is that more efficient use of energy may allow customers to commit financial resources to other uses. In the case of an industrial customer, resources may be used to expand operations. In the case of a residential customer, money may be saved or used to purchase other products and services.

QUESTION:

4. Are there any other potential benefits (e.g., environmental, energy security, etc.)?

RESPONSE:

TEP has discussed other potential benefits in its responses to (a) Questions I.A.2 and I.A.3 (distribution services); (b) Question VI and (c) Commissioner Spitzer's Questions regarding generation products.

QUESTION:

II. Determination of the Feasibility of Competition

A. Are the product and geographic markets for the good or service conducive to effective competition or manipulation by a single entity? For example–

1. Are there economies of scale which make it most efficient for the

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service to be provided by a single company?

RESPONSE:

While there may be economies of scale in the construction of generating plants, the ability to actually achieve the economies depends upon the skill of each company. For example, generating plants vary greatly as to size, technology and fuel. Not all companies involved in generating plant construction have the expertise or financial ability to build each variety of generating plant. An incumbent electric company with multiple generating plants may enjoy cost advantages in the construction and operation of generating plants for providing certain services. But in a competitive market these incumbent electric companies may not be able to compete with independent power producers ("IPPs") who have entered the electric generation market since the inception of Public Utility Regulatory Policies Act ("PURPA") and tend to build medium and peaking plants. Some of these IPPs enjoy their own economy of scale due to their focus on certain types of projects worldwide.

Technological advances during the past twenty (20) years have reduced the size of the most economically efficient generator. This size reduction has reduced the capital requirements for building new generators, thereby increasing the number of companies who can construct different types of generating plants that are geared to various generation service offerings.

TEP has discussed the issue of a single company producing related services in its responses to Questions I.A.2 and I.A.3.

QUESTION:

2. Are there economies of scope which make it most efficient for the service to be provided in a bundle with certain other services?

RESPONSE:

No. See TEP's responses to Questions I.A.2, I.A.3 and II.A.1.

QUESTION:

B. Are or will there be a sufficient number of competitors in each potentially competitive market?

1. Is the product or service one which viable competitors will actually be

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interested in providing?

RESPONSE:

Experience indicates that once a regulated industry is opened to competition the new competitive marketplace is initially comprised of viable and temporarily viable participants. In the beginning of competition in many states investor-owned utilities, municipalities, electric cooperatives, federal, state, and IPPs participated in the market for generation products. However, as the California experience and Enron bankruptcy indicate, companies that appear viable when they enter the competitive marketplace may not be able to efficiently compete in the long term and may withdraw or become financially unviable. Also see TEP's responses to Questions I.A.2 and I.A.3 regarding related services.

QUESTION:

2. Is the cost of aggregating customers sufficiently small, relative to likely revenues which new suppliers will find it profitable to enter?

RESPONSE:

Possibly. The cost of aggregating large industrial and commercial customers appears small relative to perceived revenues from the sale of generation products. However, based upon the experience in Arizona and other states, it does not appear that the aggregation of smaller commercial and residential customers has been cost effective. Also see TEP's responses to Questions I.A.2 and I.A.3 regarding related services.

QUESTION:

3. Are there technical, legal, or other barriers to entry in the markets? For example:

   a. Are there legal or technical barriers to the construction of the different types of generation plants by non-utilities?

RESPONSE:

A.R.S. § 40-360, et seq., contains the legal requirements that any party engaged in the generation or transmission of electricity must follow in order to obtain authorization for constructing a generation plant. By definition if a company is engaged in generation or transmission of electric energy it is a

utility. A.R.S. §40-360.10. Each type of generation plant will have its own technical and regulatory issues. TEP is not aware of any distinction drawn in the regulations or statutes between the standards that would have to be met by incumbent electric companies and ESPs.

QUESTION:

b. Is the cost of obtaining licenses, resources, knowledge and employees sufficiently small, relative to the expected revenues, such that new entrants will find the market attractive?

RESPONSE:

Based upon the number of companies that have filed applications for the authority to construct new generating plants in Arizona since the implementation of the Electric Competition Rules, it would appear that the Arizona market was perceived to be attractive. However, it is not yet determined how many of the generating plants that are authorized will be actually be built and placed into commercial operation.

QUESTION:

C. Is it necessary for the product or service to be provided by a single regulated company to assure reliability and safety, or can multiple companies that provide the service subject to reliability and safety rules?

RESPONSE:

No, it is not necessary for generation products to be supplied by a single regulated entity in order to assure reliability and safety. Currently, all regulated and unregulated power producers are required to comply with reliability and safety criteria as set forth by independent entities such as the NRC, NERC, WSCC, OSHA, and good utility practice; either directly or indirectly through interconnection agreements with regulated Control Area Operators. Any competitive framework that is implemented must maintain the requirement that goods and services meet these reliability and safety criteria. Also see TEP's responses to Questions I.A.2 and I.A.

QUESTION:

D. For customers, is the cost associated with learning how to shop and actually shopping sufficiently small, relative to the expected benefit, that customers will want to shop?

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RESPONSE:

TEP believes that the time and effort associated with learning "how to shop and actually shopping" has been an impediment to residential and small commercial customers in their participation in electric competition. On the other hand, industrial and large commercial customers generally have greater resources available to evaluate the benefits to be derived from retail competition and have recognized these benefits prior to the implementation of competition through negotiation of special contracts with their utility. Due to this knowledge, these larger customers have participated more than residential and small commercial customers in the competitive market place. This is also attributable to the fact that, in Arizona, ESPs have primarily focused their services on larger customers due to the recognition of larger potential revenues and the need for less customer education.

QUESTION:

III. Relationship of the Current Regulatory Regime to Competition

A. For each potentially competitive product or service, how does current state and federal regulation foster or inhibit (a) retail competition and (b) wholesale competition.

RESPONSE:

TEP believes that it is not possible to provide a meaningful description, at this time, of the impact of federal and state regulation on retail and wholesale competition of generation products and related services. TEP does not believe that there is a discernible or uniform policy on electric competition. In order to develop a degree of consistency on the federal and state levels at least the following issues must be resolved:

1. **Price mitigation policies;**
2. **Regional Transmission Organization ("RTO") functions;**
3. **Market design initiatives; and**
4. **Interconnection policies.**

FERC has formed panels to address RTO issues, and suggested that it would provide further details regarding the panels in subsequent orders. In addition, FERC has recently created the "Division of State Relations" to coordinate its RTO policies with various states and act as a clearinghouse for information and inquiries from the various states. Also, FERC is preparing to

issue proposed rules on market design and interconnection policy that will apply nation-wide. Until FERC has disseminated their proposed rules it is difficult to determine the impact on competition.

QUESTION:

B. How can the Commission protect Arizona customers from the risks of competition while promoting competition?

RESPONSE:

Competition, by definition, is not "risk-free." To the extent that the Commission believes that it should protect Arizona customers from the risks of competition, TEP notes that the Electric Competition Rules and related Commission orders currently provide substantial protection for Arizona consumers. For example, the TEP Settlement Agreement has provisions for rate reductions and rate freezes that are designed to protect Arizona consumers in the competitive marketplace. The Commission may, in the future, examine the implementation of a retail competition educational campaign for the public. Additionally, the Commission should continue to support workshops and working groups (*i.e.*, the Process Standardization Working Group and the Environmental Portfolio Standards Working Group) designed to effectively implement and foster consumer protection recommendations.

QUESTION:

C. How have the interim rate reductions for customers receiving standard service affected the ability or desire of generation suppliers to compete in Arizona retail markets?

RESPONSE:

TEP believes that the interim rate reductions had a negligible effect on the entrance of new generation suppliers into Arizona. TEP believes that potential competitors react to market price signals rather than TEP's cost-based rates when making the decision whether to compete in TEP's service territory. A portion of TEP's rates is comprised of the Market Generation Credit ("MGC").

Competitors make entrance decisions in response to the expected return on their investment, and ultimately prices in the Arizona generation market. The MGC is intended to reflect the prices at which energy sells in Arizona

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markets, and is unaffected by the rate reductions.

QUESTION:

D. Do Commission policies or legal requirements ensuring that utilities recover investments from ratepayers affect the prospects for competition in any market for which competition otherwise would be possible?

RESPONSE:

No. Pursuant to the TEP Settlement Agreement, stranded cost recovery is based on "above-market" costs of generation. Stranded cost recovery does not impede competition in other open market sectors. See also TEP's response to Question I.A.

QUESTION:

E. Does continuing utility control of depreciated generation assets affect the ability of competing suppliers to enter retail markets?

RESPONSE:

No. The purpose of the Competitive Transition Charge ("CTC") is to enable incumbent electric companies and competitors to compete "on an equal footing." Utilization of the CTC and continuing utility control of depreciated generation assets would not create a "barrier to entry" or otherwise affect the ability of competitors to enter retail markets.

QUESTION:

F. How does current Commission regulation promote or deter the ability of (1) renewables, (2) distributed generation, and (3) energy efficiency and demand side management to compete with traditional generation resources?

RESPONSE:

(1) EPS promotes the use of renewable energy resources as an alternative source of generation. However, most current renewable resource technologies are not yet cost effective, and presently would not have widespread use in a competitive market without Commission-mandated intervention. Adding renewables into utility generation portfolios necessitates subsidization (via the "EPS surcharge") by customers of the utilities.

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(2) Current regulatory orders regarding competition will not affect the decision of retail customers to select distributed generation ("DG") options. However, an uneconomic situation may exist when DG customers require standby, backup, or supplemental services. These are services that may not be available from incumbent electric companies and competitors due to the lack of an appropriate tariff. TEP believes that appropriate tariffs for DG are necessary to: (a) ensure full cost recovery of providing partial requirements services ("PRS") to DG customers; (b) provide fair rates to DG customers; and (c) mitigate risks for both DG customers and incumbent electric companies.

The Qualifying Facilities ("QF") provision under PURPA was developed at a time when utilities were fully regulated monopolies. TEP's QF tariffs for PRS were developed when TEP was a vertically integrated utility operating as a monopoly and are only available to QFs rather than all self-generators. In a competitive framework where a UDC may not own generation resources and the customer wants to benefit from competition, TEP believes the risk and reward of purchasing power in the wholesale marketplace to serve a PRS customer should be borne by the customer.

PRS tariffs can still meet PURPA obligations to provide Standby, Maintenance and Supplemental Service to QFs. PRS service would be applicable to all self-generators, not just those that meet the QF qualifications under PURPA.

(3) Commission mandates for DSM spending promote competition between DSM technologies and traditional generation resources. However, DSM and energy efficiency has evolved into a competitive service in which many energy service companies sell viable cost effective load management options to customers and assist customers in using energy in a more cost-effective manner. This occurs through the competitive marketplace rather than by Commission mandate, which would necessitate subsidization by customers who may not choose a particular DSM technology for their own participation.

QUESTION:

G. What are the risks of moving to a regime of retail competition for each product or service and what are the methods for managing those risks?

RESPONSE:

TEP believes that the risks of moving into a competitive generation market include counterparty payment and performance issues that have been brought into light in the recent Enron bankruptcy. There are, and will

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continue to be, ways of managing and limiting this risk through credit and risk management techniques used in the industry. A scenario where UDCs are required to purchase most or all of their resources from other participants in the wholesale market exacerbates these risks and introduces others.

First, if a relatively large amount of purchases are required, it may be difficult to mitigate the counterparty credit and performance issues. Furthermore, the purchasing UDC may have to pay for additional credit enhancements (in the form of letters of corporate guarantees, cash, prepayment, etc.) to ensure its ability to pay for the contracted power that will raise the end cost to its standard offer customers.

Secondly, if retail competition gives all customers the ability to "come and go," it makes it extremely difficult for the UDC to hedge its forward load. With an unknown load in future years, the UDC is unable to plan its resources with a high degree of accuracy or effectively use a portfolio approach to manage its purchased power costs. This will, in effect, lead to over-reliance on the short-term and spot markets for the required purchase amounts and volatility in standard offer power costs as experienced in California last year.

This problem is made worse when the UDC is required to act as the provider of last resort for all of its current and former retail customers. The UDC is in effect required to have resources to meet the entire load within its service territory but, in fact, will only serve an unknown portion thereof. This could lead to inefficient resource allocation in the wholesale market. On the other hand, if the UDC underestimates the amount of standard offer customers, or a large number of customers return to standard offer service due to high market prices, it will be forced to purchase power for these customers on the volatile spot market. TEP believes that in such instances the returning customer should be responsible for the procurement of the power.

QUESTION:

H. If the current regime is not conducive to retail competition for a particular product or service, what actions should the Commission take to promote its success in the future? Specifically –

1. Should the Commission require existing utilities to procure particular products or services from unaffiliated competitors?

RESPONSE:

The concept of a competitive marketplace is not consistent with the concept of the Commission placing restrictions on utility procurement. A utility should be able to procure products and services at the lowest price that meets the utility's quality specifications and requirements for delivery of services. Whether the services are provided from a department within a utility, an affiliate of the utility or an unaffiliated company should not be the focal point. The focus should be on the utility procuring quality products and services at a reasonable cost. Eliminating an affiliate from consideration limits alternatives.

QUESTION:

2. Are utilities taking steps that will make competition more difficult down the road (e.g., retail marketing, internal restructuring, entering into agreement to avoid customer self generation)? If so, identify those steps and how the Commission should response.

RESPONSE:

No. However, TEP, like any good service provider, offers its customers account management and other services to help them find solutions for their energy problems. TEP has not taken steps that will make competition more difficult down the road other than to provide its customers with quality products and a high level of service.

QUESTION:

3. Are utilities entering into long-term contracts with existing customers? If so, how do they affect prospects for future retail competition? Should the Commission allow them?

RESPONSE:

Yes, at the customer's request and with Commission approval, TEP has entered into various long-term agreements with customers. In so doing, TEP is not actively seeking long-term contracts, but is responding to customer requests for price stability and security. TEP does not believe that retail competition will be impacted by the agreements that are in place. TEP believes that an appropriate competitive framework would allow utilities and customers to enter into informed and prudent contractual agreements related to retail energy supply.

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QUESTION:

4. Should the Commission consider instituting competition for billing and metering services even if retail generation competition is premature?

RESPONSE:

See TEP's response to Question I.A.2.

QUESTION:

IV. Retail Generation Competition

A. Regarding each identifiable generation product –

1. Identify with particularity any defects in the wholesale market structure affecting Arizona.

RESPONSE:

While the wholesale market structure in Arizona, as well as throughout the West, supports a robust exchange of generation there are some transmission constraints that (at times) restrict some generation transfers. These constraints currently are mitigated through the use of local generation in accordance with protocols that were developed jointly by Commission Staff, incumbent utilities and representatives of customers, and generators.

QUESTION:

2. Are there an adequate number of competitors to sell in Arizona to make the product sufficiently competitive? How many sellers are there?

RESPONSE:

Currently there is a limited number of retail competitors in Arizona. However, there are presently 200 WSPP members that are providers of wholesale generation.

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QUESTION:

3. How have mergers and consolidations in the industry affected the competitiveness of the product in the region at the wholesale and retail levels?

RESPONSE:

TEP is not aware of any mergers or consolidations that have had an effect on the competitiveness of wholesale generation in Arizona.

QUESTION:

4. Are competitors building new generation able to price their generation at rates competitive with existing generation?

RESPONSE:

Due to the volatility of natural gas prices it is hard to pinpoint an exact price for comparative purposes. However, TEP believes that under current gas prices ESPs should be able to price their generation competitively.

QUESTION:

5. How has the Independent System Administrator affected the success of (a) retail competition and (b) wholesale competition?

RESPONSE:

The Independent System Administrator was established to provide oversight to Direct Access energy transactions between Scheduling Coordinators and Control Areas. The "AZAISA protocols" established the process (timelines and format) that all Direct Access Scheduling Coordinators and UDCs are to follow. These protocols have provided a sufficient basis for competition to occur. Due to the limited level of retail competition, the oversight function has not yet come into play. Also, due to limited retail access the AISA has had no affect on wholesale competition.

QUESTION:

B. Regarding the transmission and distribution infrastructure necessary to support competition for each identifiable generation product

1. Are there transmission constraints inside or outside Arizona that currently impede the ability of competitors to reach Arizona customers during any seasons of the year or times of the day?

RESPONSE:

There are several transmission-constrained regions within Arizona, including the TEP service territory. TEP's service territory has a voltage constraint. This constraint requires that TEP operate its system with local generation (must-run) units on-line. The AZAISA protocols were designed to address this type of constraint. Accordingly, TEP does not believe that its voltage constraint has impeded competition within its service territory.

QUESTION:

2. What plans are in place to relieve transmission constraints?

RESPONSE:

TEP is currently in the process of adding a second transformer and 500 kV interconnection at its Tortolita substation. These additions will provide additional voltage support on its North side, thereby increasing the level of import capacity into TEP's service area.

QUESTION:

3. How long will it take to relieve any existing transmission constraints and what factors are affecting and will affect prospects for relief?

RESPONSE:

TEP anticipates an in-service date of April 2003 for the second Tortolita Interconnection. This will allow load within TEP's service territory to be economically served for the foreseeable future. TEP is participating in the Central Arizona Transmission Study ("CATS") effort at the current time. The outcome of this process will be an indication of what transmission projects will be pursued in Arizona and the anticipated in-service dates.

QUESTION:

4. Are the owners of constrained transmission facilities, or holders of transmission rights, able to use their control to affect market prices?

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RESPONSE:

No, under the current AISA protocols the price for must-run generation is "cost-based." The price of energy in a constrained area is based on either (a) the price of energy external to the area plus the transmission price (for TEP this is set by FERC); or (b) must-run pricing which is defined in the AISA protocols.

QUESTION:

5. Are these transmission owners currently doing things that will allow them to exert more or less control in the future? If so, please detail.

RESPONSE:

No, all FERC jurisdictional entities are participating in efforts to develop RTOs at the direction of FERC. These organizations are intended to decrease the ability of any market participant to exert control over market prices.

QUESTION:

6. Will the transmission system be adequate prospectively (e.g., in the next, 5, 10, 15, 20 years) to deliver power from new generation plants?

RESPONSE:

While there are significant generation projects being proposed and constructed in the West, there have been very few transmission projects announced. It is difficult to project where new generation will be sited in the future and to estimate if there will be adequate transmission to support these future generation projects. CATS is currently attempting to analyze future transmission projects in Arizona with input from various generation entities to try and close the gap between transmission and generation. The CATS group is primarily made up of transmission providers and IPPs in the Southwest.

QUESTION:

7. Is the natural gas pipeline infrastructure adequate to support all proposed new gas-fired generation plants? How many plants can it support?

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RESPONSE:

TEP does not believe that the current gas pipeline infrastructure is adequate to support the more than 15,000 MW proposed gas-fired generation plants in Arizona. In fact, there are concerns that current generation plants may be overtaxing the existing gas infrastructure. Plant developers and pipeline companies must plan accordingly to ensure that the necessary gas transportation is available on a plant-by-plant basis.

QUESTION:

8. Does the transmission and distribution system facilitate or deter

a. the development of renewable energy technologies?

RESPONSE:

TEP does not believe that the transmission and distribution system either facilitates or deters the development of renewable energy technologies. For example, independently, TEP currently uses approximately 5 MWs of landfill gas in its Irvington Unit 4 generator and has installed over 1 MW of photovoltaic solar generation.

QUESTION:

b. the development of distributed generation?

RESPONSE:

TEP does not believe that the transmission and distribution system either facilitates or deters the development of DG.

QUESTION:

c. the development of demand-side management and energy efficiency?

RESPONSE:

TEP does not believe that the transmission and distribution system either facilitates or deters the development of demand-side management and energy efficiency.

QUESTION:

C. Regarding competitive bidding –

1. Identify with particularity any adverse consequences that would result from Commission approval of a substantial variance to the electric competition rules that require competitive bidding for 50% of the electric supply for standard offer customers, starting in 2003. Specifically:

a. How would retail customers be affected?

RESPONSE:

At this point in time, TEP believes that there may be positive consequences if the Commission approved a substantial variance to the Electric Competition Rules requiring competitive bidding for 50% of the electric supply for standard offer customers. In fact, TEP has requested that the Commission postpone the implementation of this provision of the Electric Competition Rules until the Commission has completed its re-evaluation of competition in Arizona.

During the time period from the present through the end of 2008, (which is the remaining time for TEP's stranded cost recovery and during which TEP's rates are frozen) the risk of market price variation is borne by TEP and its generation affiliate (assuming that the transfer of generation assets to the affiliate occurs). Any price risks related to a change in the requirement for competitive bidding for 50% of the electric supply for Standard Offer customers are also borne by the utility and its generation affiliate. Since rates are frozen, any additional costs will not be passed on to customers (except under circumstances of emergency as noted in TEP's Settlement Agreement, Section 13.4).

For the time period starting on January 1, 2009, when TEP's stranded cost recovery period has ended and the fixed and floating CTC no longer exist, TEP's rates will be no longer frozen. TEP would then seek to pass through the market price of generation to customers. Any benefits or adverse consequences of a modification to the 50% competitive bidding requirement will depend on the structure of the market price pass-through and the method under which purchased power costs are adjusted. Choice of power procurement resources is essential to produce fair prices for consumers. A limitation on resource choices would be counterproductive for both utilities and customers.

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QUESTION:

b. How would retail generation competition be affected?

RESPONSE:

Retail generation and wholesale generation markets are essentially one and the same. An ESP will have the responsibility of serving retail load, and will access markets considered as "wholesale" to procure power for retail customers. Generation markets would not be affected by a variance to the bidding rule. Supply and demand conditions for power generation will determine the market price to which competitive generators will respond.

QUESTION:

c. How would wholesale generation competition be affected?

RESPONSE:

See TEP's response to Question IV.C.2.

QUESTION:

2. Are sufficient competitors available for an effective bidding process for 50% of standard offer service? A higher or lower percentage?

RESPONSE:

While there may be sufficient "competitors" who would be willing to bid on supplying Standard Offer service, there are only a very few that currently have power to commit to such a bid. In Arizona and throughout the Southwest, there is very little excess energy capacity available. The WSCC, in its August 2001 Information Summary, projects a Minimum Reserve Requirement for AZNMNV in 2002 of 26,641 MW which is greater than the projected Total Resources of 26,199. This same summary shows the outlook improving in 2003 where Total Resources exceed Minimum Reserve Requirements by 2,393 MW or 8.7%. If a bid process were to take place that would require 50% of standard offer service to be provided by a non-affiliated entity, it could require the winners of those bids to build generating plants to serve the load (which would take several years) or purchase the power. This would, in affect, be a "re-shuffling" of resources between effected utilities in

the short term until other entities build plants to serve the load not currently served by existing resources.

QUESTION:

3. Can retail competition develop if current rules are modified to allow a utility to procure all its generation for standard service from an affiliated company?

RESPONSE:

Yes, incumbent utility procurement of generation from an affiliate is largely a "cost and risk" management issue for Standard Offer service customers and shareholders. Under the Electric Competition Rules, customers still have the right to shop for an alternative ESP, who will supply energy from the wholesale market, which will include generators owned by utility affiliates. As the number of Standard Offer service customers is reduced through competition, the affiliate will seek to sell that energy elsewhere, including to alternative ESPs. Affiliate transactions should be allowed, with adequate regulatory safeguards to ensure that generation costs charged to standard service customers are just and reasonable.

Retail Electric competition will develop based on the supply and demand balance in the region. Incumbent electric companies should have flexibility to develop a supply portfolio that includes generation from their affiliates to manage the price risk for their customers and shareholders, particularly while retail prices are capped, as well as when a purchased power and fuel adjustment clause exists.

TEP believes that the market price signal sent to potential generators, not utility cost embedded in current rates, will determine whether alternative suppliers enter the market. Based on supply and demand dynamics, if supply of power is tight under growing load conditions, it is likely that market prices will be bid upward incentivising potential generators to enter the market. TEP also believes that the number of generators entering the market will increase until expected profits are insufficient to provide investors with an adequate return.

QUESTION:

4. How would retail competition be affected by other deviations to the competitive bid rules? Be specific about the changes in the rules and their consequences.

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RESPONSE:

TEP believes that the following aspects of A.A.C. R14-2-1606 could be modified to improve electric competition:

a. Date. Currently the mandatory date for a UDC to purchase power through a competitive bid process for Standard Offer service under A.A.C. R14-2-1606 and the TEP Settlement Agreement is January 1, 2003. TEP has requested that this date be extended until the Commission's review of electric competition is completed.

b. Prudent arm's length transactions. A clarification of the terms under which a utility can enter into prudent arm's length transactions would improve the Electric Competition Rules. If incumbent electric companies are allowed to make direct transactions with affiliates, price risks to customers and shareholders can be mitigated without changing the date for a UDC to purchase power through a competitive bid process for standard offer service. Regulatory oversight of the "arm's length transaction" would ensure that direct transactions with affiliates do not adversely impact customers. Competition would not be impeded by this change.

c. Competitive bid process. By easing the requirement for energy to be purchased under a competitive bidding arrangement, the same benefits would result as in the above discussion to prudent arm's length transactions. A phased-in or more flexible approach to the 50% requirement would provide a better opportunity to mitigate price risks to customers and shareholders.

QUESTION:

5. Instead of entertaining individual requests for substantial variances to the competitive bid requirements, should the Commission proceed on a generic basis to modify the rules for competitive bidding?

RESPONSE:

Yes.

QUESTION:

6. If the Commission would change the 50% bidding requirement for standard offer service, are there other specific measures the Commission can take to promote retail competition?

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RESPONSE:

TEP believes that other actions the Commission could take to promote retail competition include:

a. Streamlining the permitting process for electric transmission lines, generating plants and natural gas pipelines; and

b. Additional consumer education regarding retail competition.

QUESTION:

D. Regarding the pricing of power supply contract rates –

1. Identify any advantages that would result if the Commission approved a long-term supply contract for standard offer customers that was based solely on cost-based rates. (Your answer should define "long term" as compared with "short term" contract.)

RESPONSE:

TEP would define a "long-term power supply contract" as an agreement in excess of one year that contains a defined term for price stability.

Advantages of long-term contracts include:

a. Mitigation of market risk for purchased energy requirements, and elimination of price risk for retail consumers.

b. Simplification of a generating company's risk management for energy sales.

c. Less likelihood of market volatility precipitating a request for higher rates, and greater assurance of stable rates for retail customers.

d. Balancing of market risk for both UDC and the generating company for energy sales and purchases when less than 100% of energy requirements are provided by the generating company.

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QUESTION:

2. What if the contracts are based solely on market-based rates?

RESPONSE:

TEP believes that the advantages of market-based rate contracts could include:

a. Potential additional market opportunities for the generating company.

b. No change to Electric Competition Rules would be necessary.

c. Greater acceptability among generation-related parties.

d. TEP's MGC would still be applicable.

e. Customers could change their consumption in response to changes in market prices.

QUESTION:

3. Describe how FERC's new approach for analyzing the ability of sellers with market rate authority to exercise market power affects generation companies selling into Arizona.

RESPONSE:

FERC is considering a new Supply Margin Assessment ("SMA") market power screen that could be used to determine if suppliers are granted market-based rate authority. The new SMA test, unlike the old "hub-and-spoke" method, determines whether a supplier is "pivotal" in a control area. A supplier will be pivotal if its capacity exceeds the market's surplus of capacity above peak demand the market's "supply margin." Thus, a supplier will fail the SMA test if the amount of its capacity exceeds the supply margin. If the supplier passes the test, it is granted market-based rate authority. If it does not, the supplier would have to submit to market mitigation measures, including a form of cost-of-service ratemaking.

The new SMA screen will restore a form of cost-based rates and effectively cap wholesale market prices. This will result in tightly regulated wholesale power prices and make the economics of building new competitive

generation unattractive serving as a disincentive to adding capacity in areas where the capacity margins are tight – the opposite of the desired result.

QUESTION:

3. Does the Commission have the ability to assure that approval of a long-term contract would protect ratepayers receiving standard offer service as well as foster competition?

RESPONSE:

As the party that approves the portfolio of long-term contracts, the Commission would be in the position to consider the rate implications to Standard Offer service customers as a result of the contract. The Commission's decision will influence the rates paid by Standard Offer service customers. At the same time, retail customers will be free to choose other energy sources. From TEP's perspective, approval of a long-term contract is unrelated to the fostering of competition.

QUESTION:

V. Industry Event External to Arizona

A. Describe in detail developments you believe will occur in both the wholesale and retail competitive electric generation markets nationally and in Arizona over the next 12 months, 24 months, 36 months, 48 months and 60 months.

RESPONSE:

TEP believes that in the near term (12-24 months), competitive electric generation markets in the western United States will remain stable and energy will be priced relatively low. Supply factors that may influence this projection include: (a) several thousand MWs of recently and soon to be installed capacity; and (b) normal precipitation forecasts in the Pacific Northwest and California. Demand factors include energy conservation efforts throughout the West and in particular California, voluntary load reduction in the Northwest, and a possible slow recovery of the economy. However, there may occur periodic but brief price spikes due to forced outages, coincident extreme weather, or natural gas supply problems.

The longer-term outlook (24-60 months) is more difficult to project. In light of the five to ten year price curves for electricity and natural gas, the potential profit margins have diminished to a point where future investment in

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merchant generating plants may not be economically viable. This could be compounded if the FERC SMA screen is implemented. In fact, Calpine recently announced that it would complete the projects scheduled to be on-line in 2002 and 2003, but that it would put "on hold" another 34 projects totaling over 15,000 MWs nationwide. Additionally, merchant generating plant producers may scale back on future projects in an effort to minimize debt and preserve credit ratings.

In short, retail competitive electric generation markets regionally and nationally appear to be in a holding pattern for the foreseeable future.

QUESTION:

B. Is there anything the Commission should do to continue to avoid California's retail electric competition experience? Please be specific.

RESPONSE:

Yes. In order to avoid the California experience, the Commission should encourage diversification in the procurement of Standard Offer energy supply. TEP believes that a major contributor to the problems in California was the over-reliance on spot market energy purchases via the California Power Exchange. In early 2001, the California Power Authority, in an attempt to reduce its exposure to high spot prices, negotiated long-term contracts at historically high prices. The California crisis may have been mitigated if regulators had permitted a balanced mix of short and long-term energy purchases at inception of competition.

The competitive market framework adopted in California required the UDCs to purchase from the California Power Exchange, with no ability to purchase hedging contracts, and the utilities were also required to divest much of the generation resources to third parties. The California Power Exchange used a Second Price Auction to set the market-clearing price, where all providers were paid the highest acceptable price in the hour, which added volatility to the hourly price. Requiring utilities to divest generation to third parties took risk mitigation away from the utilities, and at the same time, the utilities' rates to customers were frozen. When the market price spiked, utilities were unable to pass on any costs above the frozen rates.

TEP believes that prior to the commencement of competitive bidding, the Commission should consider meeting with affected parties to discuss the parameters of a diverse Standard Offer resource portfolio. Such discussions should focus on establishing appropriate allocations of spot and long term and

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fixed and variable contracts in order to ensure price stability and reliability for Arizona electric consumers in the future.

QUESTION:

C. Does the Enron bankruptcy have any lesson for retail electric competition in Arizona?

RESPONSE:

There are several important lessons to be learned from the unprecedented failure of Enron and its effect on investors, regulators and the industry.

First, it is important to have a carefully designed competitive market. It is important to ensure that a framework is implemented that will provide both fiscal responsibility for the utilities and protection to retail customers. For example, as a result of its financial problems, Enron was allowed to terminate 700 retail contracts that supplied either power or gas, because these contracts were "burdensome" to the bankrupt estate of Enron. An additional 25,000 power and gas contracts are currently being reviewed. Termination of contracts in these numbers will have an obviously severe effect on consumers. To limit damaging effects on retail customers, the Commission should ensure that its entry requirements for ESPs are rigorous. Additionally, if the Commission requires that incumbent electric companies fulfill the energy needs of retail customers arising from a defaulting ESP (provider of last resort obligations), then the Commission should ensure that the incumbent electric companies are adequately compensated to prevent the cost of the defaulting ESP from resulting in higher costs to all standard offer service customers. This may include more stringent policies requiring all ESPs to provide a deposit to the incumbent electric company or to post a bond.

Second, the Enron bankruptcy has highlighted the importance of the credit quality of an ESP. TEP believes that credit requirements for ESPs will tighten as the market reacts to unexpected failures such as the Enron bankruptcy. This could have various implications such as:

a. An ESP may be unable to procure power on the market to supply retail customer needs.

b. An incumbent electric company may be unable to procure power on the market to supply retail customer needs arising from a defaulting ESP.

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c. Scrutiny as to credit quality may result in the credit ratings of retail customers falling, requiring additional deposits from the retail customers.

d. Further, restrictive credit requirements will lead to higher financing costs for utilities, complicating the need for improvement of the energy infrastructure.

Enron was a central player in the significant increase in the number of generating plants built in recent years, and its demise comes at a time when plans to build many generating plants throughout the country have been placed on "hold."

QUESTION:

D. How will FERC's RTO initiative affect the realization of effective retail generation competition in Arizona?

RESPONSE:

FERC's RTO initiative is based on the creation of a competitive wholesale electric market and is not directly focused on retail competition. An RTO that covers Arizona may provide some additional benefit at the wholesale level and will likely provide benefits to retail competition to the extent that the wholesale market becomes more efficient. There will be a substantial cost associated with the RTO that will be borne by wholesale and retail customers.

QUESTION:

E. Do you anticipate changes in federal utility statutes to affect the jurisdiction of the Commission and its ability to foster retail competition in Arizona? Please detail.

RESPONSE:

Legislation recently introduced in Congress would allow increased federal control over the interstate transmission system. The provisions of the legislation could potentially grant federal entities the authority to site transmission lines under certain circumstances. Such a provision, if passed, would likely pre-empt the authority of the Arizona Power Plant and Transmission Line Siting Committee and the Commission to review and site transmission lines in Arizona. Additionally, FERC's current emphasis on acquiring complete control of the interstate transmission system, including

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access to infrastructure and control of the flow of energy across transmission lines, may diminish the Commission's oversight of transmission infrastructure owners within the state. One of FERC's goals, in this respect, is to increase the level of interstate bulk transmission transactions. To the extent the increased level of interstate transactions involve the flow of energy across Arizona, the availability for transactions within the State may be significantly reduced. Availability of transmission rights within the state for wholesale transactions is a critical component of a robust retail market.

QUESTION:

VI. System Security

A. Are there compelling reasons to be concerned about security for electric generation facilities since the Sept. 11, 2001 tragedy? Please include discussion of interconnection at a central location such as Palo Verde/Hassayampa.

RESPONSE:

The fact that news reports have indicated that some terrorist materials found by the government mentioned nuclear generating plants as targets is a reason to be aware of security measures at generating facilities. TEP believes that, in general, nuclear generating stations have a high degree of plant security, as do other types of generating units.

Anytime that there is a concentration of required services at one location the risk from a catastrophic event at that location increases. In general the larger a generation facility or an interconnection facility becomes, the greater the impact the loss of that facility will be.

QUESTION:

B. Does transferring ownership of generation facilities out from traditional Commission jurisdiction have any potential negative security consequences?

RESPONSE:

The transfer of ownership of generation facilities out from traditional Commission jurisdiction would only have negative security consequences to the extent that Commission security requirements are stricter than those imposed by the NRC, NERC and WSCC.

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QUESTION:

C. What if ownership after transfer results in a foreign corporation eventually controlling Arizona's generation?

RESPONSE:

See TEP's response to Question VI.B.

QUESTION:

D. Does such a transfer to a non-Arizona entity potentially impact security issues for Arizona?

RESPONSE:

See TEP's response to Question VI.B.

QUESTION:

E. Are there any positive security aspects to transferring electric generation out from Commission traditional regulation to a foreign corporation?

RESPONSE:

TEP is not aware of any particularly positive security aspects from transferring electric generation out from Commission traditional regulation to a foreign corporation.

QUESTION:

F. Provide specific examples to support your answers.

RESPONSE:

Not applicable.

QUESTION:

VII. Vision

Please provide your vision for how viable competitive wholesale and retail

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electric markets will (or will not) develop in Arizona. Please be specific regarding dates, the development process, and measures for determining at various stages how successful the process has been.

RESPONSE:

In its Introduction and Procedural History, TEP has noted that the road traveled to reach the current state of electric competition in Arizona had many twists and turns and even its share of blind curves. TEP believes this winding path is the result of many factors influencing competition that are beyond the control of the regulators, utilities, ESPs and customers. TEP believes that unless these factors, such as price volatility, are properly accounted for or controlled the competitive retail market in Arizona will develop slowly in conjunction with the other retail and wholesale markets in the western U.S.

TEP believes that one of the most critical components that will influence retail competition is generation price volatility in the wholesale market[4]. Price volatility serves as the feedback mechanism to the providers in the marketplace to either provide more or less, and to consumers to make informed consumption decisions. A competitive market can exist with price volatility. That said, TEP does believe that a competitive retail market is facilitated by a competitive wholesale market, which in the western U.S., is tightly integrated through transmission interconnections. This interdependence results in a supply boom or bust in one state affecting the supply situation in the other states. Presently, there is a supply and demand balance in the West, although reserve margins are thin, and available transmission transfer capability and natural gas pipeline capacity are near their limits. Before a robust competitive retail market can exist in Arizona, or any other state in the West, the art of balancing regional supply and demand without a regulatory mandate and delivery infrastructure issues must be addressed.

While Arizona cannot single-handedly control these factors, it can take steps to address issues that will influence the development of a robust competitive wholesale market in the West and help mitigate the price volatility. Two steps Arizona can take are: (1) encourage the development of additional generating resources and/or load management, which will be required to maintain a regional supply and demand balance; and (2) encourage the development of additional transmission infrastructure and new gas pipeline or

[4] Price volatility results from the long lead-times required to bring additional generation capacity on line, long lead-times to develop adequate delivery infrastructure and the lack of price elasticity in the demand curve.

railroad infrastructure that will be necessary to ensure adequate delivery capability to customers and fuel supply to generators. The skill with which the Western states collectively addresses these power system infrastructure issues will set the tone for the competitive retail market in Arizona.

It is important to note that competitive retail markets are more volatile than regulated markets. Electric markets may be even more volatile than other markets, because the demand in any electric market must be instantaneously supplied from a limited supply. Due to the price volatility of the wholesale market, it follows that retail pricing of generation will also become more volatile.

The risk from price volatility must be appropriately balanced between shareholders and customers. There are two main ways in which this price volatility risk can be mitigated. First, customers can use market-pricing information to make informed decisions on the amount of electricity they wish to consume, which will introduce price elasticity into the short-term demand curve. Secondly, the utility or ESP can have a portfolio of short-term and long-term contracts with suppliers. Incumbent utilities should be allowed the flexibility to develop a portfolio approach to serving the needs of their standard offer customers, which will help mitigate the impact of any short-term price spikes or dips and smooth out the average price that the customer pays. Also, when acting as a provider of last resort to serve Standard Offer customers, incumbent utilities should be allowed to implement purchased power and fuel adjustment clauses in order to mitigate unreasonable risk and volatility to their shareholders.

FERC has chosen to implement market price caps as a remedy for wholesale market price volatility in the West. TEP believes this approach could ultimately hinder development of additional generation resources, because developers of new generation resources must find a financially viable marketplace to justify their investment. If developers are "capped" when market prices rise, the risk/reward equation becomes unbalanced. TEP believes a more prudent approach is to mitigate market control where it exists. Generally, a competitive wholesale market should be free of price caps.

With respect to flexibility, TEP also believes the current competition rules could limit the customer's options for electricity supply by limiting the circumstances for which a utility and customer can enter into an agreement (A.A.C. R14-2-1606.C.6). This is particularly true because any deviation from tariff service would still require Commission approval as a special contract. TEP would be opposed to retail market structures that limit a customers choices or options, and believes that a more viable competitive framework

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would allow the UDC to compete as a cost-based, regulated supplier.

4. **RESPONSE TO COMMISSIONER MUNDELL'S QUESTIONS DATED JANUARY 30, 2002.**

For the purposes of the questions and responses below –

1. an "affiliate company" means (a) any person or company that owns or has the power to control the outstanding securities of 5% or more of the entity or (b) any officer or director of the entity;

2. a "retail supplier" may be a public utility, including a distribution company or a competitive provider of energy or other retail electric services such as Electric Service Providers (ESPs) under our rules;

3. a "subsidiary company" means any company in which the entity owns or controls five percent or more of the outstanding securities of such company.

Corporate Structure and Affiliate Relations

1. If the U.S. Congress repeals the Public Utility Holding Company Act of 1935 ("PUHCA" or "Act") PUHCA –

QUESTION:

a. what regulatory protections would be lost for Arizona consumers?

RESPONSE:

TEP does not believe that the repeal of PUHCA would result in the loss of regulatory protections for Arizona consumers. PUHCA was enacted to regulate transactions between a utility and its affiliates. The Commission has enacted A.A.C. R14-2-801 et seq. ("Public Utility Holding Companies as "Affiliated Interests") to review transactions between a public service corporation operating in Arizona and its affiliates, and to require production of books, records, accounts and other records relating to those transactions. In addition, any public utility holding company operating in Arizona must file annual report detailing affiliate interests and diversification plans. Finally, the Commission retains jurisdiction over rates and financing of public service corporations operating in Arizona, regardless of the ownership structure of such utilities.

QUESTION:

b. what would be the risks for Arizona consumers?

RESPONSE:

TEP does not believe that the repeal of PUHCA would pose significant risks for Arizona consumers.

QUESTION:

c. for any identifiable risks, are the risks reduced or increased under a competitive retail regime?

RESPONSE:

See Responses to Questions Nos. 1 a. and 1.b.

QUESTION:

2. What is the extent of the Commission's authority to protect retail consumers from any potential adverse consequences resulting from multistate companies operating in either wholesale or retail markets in the state?

RESPONSE:

TEP does not believe that these are adverse consequences from multistate companies operating in the state. See also TEP's Responses to Questions 1 and 15 herein.

QUESTION:

3. How would the existence of effective retail competition in Arizona affect your responses to Questions 1 and 2 above?

RESPONSE:

TEP believes that its Responses to Questions Nos. 1 and 2 would be the same in a competitive marketplace.

QUESTION:

4. What is the extent of any impact on effective federal or state regulation to protect Arizona wholesale and retail consumers, if a holding company is (a) registered or (b) "exempt" under PUHCA?

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RESPONSE:

TEP does not believe PUHCA presently has significant impact on effective federal or state regulation to protect Arizona wholesale and retail consumers, whether the holding company is registered or exempt. The protections to consumers afforded under PUHCA are largely duplicative of those now provided by state utility commissions, including Arizona. See TEP's Response to Question No. 1, above.

Questions Specifically for Retail Suppliers as Defined Above

5. Explain the retail supplier's corporate structure.

RESPONSE:

The corporate structure is described in Exhibit 1 attached hereto and the "UniSource Energy Corporation and Tucson Electric Power Company Statement by Holding Company Claiming Exemption Under Rule U-3A-2 from the Provisions of the Public Utility Holding Company Act of 1935" provided in Response to Question No. 12.

6. Identify all subsidiary companies and the businesses in which they are engaged.

RESPONSE:

Subsidiary companies and businesses are set forth in the "UniSource Energy Corporation and Tucson Electric Power Company Statement by Holding Company Claiming Exemption Under Rule U-3A-2 from the Provisions of the Public Utility Holding Company Act of 1935" provided in Response to Question No. 12.

QUESTION:

7. Identify all affiliate companies and the businesses in which they are engaged.

RESPONSE:

Affiliate companies and businesses are set forth in the "UniSource Energy Corporation and Tucson Electric Power Company Statement by Holding Company Claiming Exemption Under Rule U-3A-2 from the Provisions of the Public Utility Holding Company Act of 1935" provided in Response to Question No. 12.

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QUESTION:

8. Identify each entity that owns or has control of 5% or more of an affiliate of the retail supplier, and describe the businesses in which that entity is engaged.

RESPONSE:

1. Inica, Inc. ("Inica"), a privately held corporation organized under the laws of the State of Colorado, owns 51% of Microsat Systems, Inc., 51% of ITN Energy Systems, Inc. and 33% of Global Solar Holdings, L.L.C. Inica was formed to research, develop and commercialize energy and environment related technologies for government and commercial markets.

2. Polyplex Corporation, Ltd., a privately held company organized under the laws of the Republic of India, owns 50% of GS India. Polyplex was formed to engage in the research, development and commercialization of thin film photovoltaic materials and devices for commercial, residential, industrial and military applications in India.

3. An individual from the United States, who engages in engineering consulting services, owns 9% of Biomasa Generacion, S. de R.L. de C.V. ("Biomasa") and 9% of Suministradora de Materials Organicos, S.R.L. de C.V. ("Suministradora"), each Honduran companies that were initially formed for the purpose of developing a biomass project in Honduras. However, as the project is no longer in development, Biomasa and Suministtradora are currently inactive and in the process of being dissolved.

4. The following hold an equity interest in Corporacion Panamena de Energia S.A. - Electric Machinery Enterprises, a Florida company that provides electrical contract services, (21.67%) ; Proquim, a Panama company engaged in commercial development activities in Panama, (22.67%); and a Panamania resident who owns a construction company in Panama, (14.67%).

5. Three individuals own the remaining 50% of Sentinel Concrete Utility Poles, L.L.C..

6. Three individuals own the remaining 50% of Productos de Concreto Internacionales, S. de R.L. de C.V. ("Productos").

7. Five individuals own 58.4% of TruePricing.

8. Tyco Electronics, a publicly traded company providing electronic components and solutions owns 14.3% of Inncom, Inc. through their acquisition of AMP. Ardent Communications LTD, a publicly traded global provider of broadband internet solutions owns 13.1%. Hong Kong and Shanghai Hilton hotels own 8.5% of Inncom.

9. A private investor, owns 6.5% of Powertrusion International Inc. ("PTI") The Turner Family Trust, owns 5% of PTI.

10. MetroGen LLC., a privately held corporation under the laws of Delaware owns 80% of MetroGen Enterprises, LLC.

11. Millennium owns a limited partnership interest in Haddington Ventures II an energy investment fund, the remainder of Haddington is owned by other investors, the composition of which has changed over time.

QUESTION:

9. Describe the financial relationships among the various affiliates and subsidiaries, such as pledges of assets and encumbrances and contracts for services and goods.

RESPONSE:

For a description of the relationships between the various affiliates and subsidiaries, see the "UniSource Energy Corporation and Tucson Electric Power Company Statement by Holding Company Claiming Exemption Under Rule U-3A-2 from the Provisions of the Public Utility Holding Company Act of 1935" provided in Response to Question 12.

TEP employees may provide corporate and administrative services for subsidiaries and affiliates. Any time spent by TEP employees on such services is charged to the appropriate subsidiary or affiliate.

All contracts for goods and services are procured through a competitive process, therefore eliminating preferential treatment of affiliates.

TEP has the following loans to affiliates:

1. UniSource Energy Corporation has a loan from TEP.

Loans between affiliates:

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1. Global Solar Holdings, L.L.C. has a loan from Advanced Energy Technologies, Inc.

2. Global Energy Solutions, Inc. has a loan from Millennium Energy Holdings, Inc.

3. ITN Energy Systems, Inc. has a loan from Millennium Energy Holdings, Inc.

4. Southwest Energy Solutions, Inc. has a loan from Millennium Energy Holdings, Inc.

5. UniSource Energy Development Company has a loan from Millennium Energy Holdings, Inc.

6. Millennium Environmental has a loan from Millennium Energy Holdings, Inc.

In each of the above cases the borrower has pledged certain assets as security for debt owed.

Affiliate loans guaranteed by other affiliates:

1. Millennium is the guarantor of a lease entered into by ITN Energy Systems Inc.

2. UniSource Energy Corporation is the guarantor of a lease entered into by Global Energy Solutions, Inc.

3. UniSouce Energy Corporation is the guarantor of a line of credit for Southwest Energy Solutions, Inc.

Additionally, TEP and San Carlos Resources, Inc. are jointly and severally liable as lessee under certain leases of common facilities associated with Springerville Unit No. 2. San Carlos Resources Inc. is obligor on the Springerville Common Facilities Lease.

UniSource provides for the indemnification of affiliates and subsidiaries through applicable insurance coverages. Nations Energy Corporation also provides for the indemnification of Nations International's Nominees through provisions in Nations International's Nominee and Trust Agreement.

QUESTION:

10. Explain whether the retail supplier, or any affiliate or subsidiary of the retail supplier, is regulated by the Securities and Exchange Commission (SEC) as either an "exempt" or "registered" public utility holding.

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RESPONSE:

UniSource and TEP are both exempt public utility holding companies under Section 3(a)(2) of PUHCA. See the UniSource Energy Corporation and Tucson Electric Power Company Statement by Holding Company Claiming Exemption Under Rule U-3A-2 from the Provisions of the Public Utility Holding Company Act of 1935 provided in TEP's response to Question 12 below.

QUESTION:

11. Identify any waivers or "no-action" letters the retail supplier, its affiliates, its subsidiaries, or other associated companies has received in the last 15 years from the SEC under PUHCA or the Investment Act of 1940 or from FERC under the Federal Power Act.

RESPONSE:

TEP, its affiliates and other associated companies, over the past 15 years, have received the following waivers and "no-action" findings from the SEC under PUHCA and the Investment Act of 1940:

1. Both TEP and UniSource are holding companies that have been granted an exemption from registration under PUHCA.

2. No action finding if TEP omits a shareholder proposal relating to ordinary business operations (*i.e.*, shareholder relations) from its proxy materials relating to its 1997 Annual Meeting of Shareholders. (*Tucson Elec. Power Co.*, 1997 SEC No-Act. Lexis 288 (Feb. 12, 1997)).

3. No action finding if TEP and UniSource effect a statutory exchange under Arizona law whereby the holders of outstanding shares of TEP common stock would become holders of shares of UniSource common stock and UniSource would become the sole holder of outstanding shares of TEP common stock. (*Tucson Elec. Power Co.*, 1995 SEC No-Act. Lexis 890 (Sept. 26, 1995)).

4. No action finding with respect to the proposed leasing of Springerville Unit 1 to TEP. (*Tucson Elec. Power Co.*, 1992 SEC No-Act. Lexis 1145 (Nov. 10, 1992)).

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5. **(Related to No. 3) No action finding if the Voting Agreements were modified in the manner described. (*Tucson Elec. Power Co.*, 1992 SEC No-Act. Lexis 1158 (Dec. 14, 1992)).**

6. **Finding that the serial issuance of TEP's first mortgage bonds under the Indenture dated as of April 1, 1941, as supplemented ("Indenture") would not be deemed a "series of securities" within the meaning of the Trust and Indenture Act of 1939. (*Tucson Elec. Power Co.*, 1992 SEC No-Act. Lexis 27 (Jan. 8, 1992)).**

7. **No action finding regarding omitting from TEP's proxy materials a proposal which involves imposing limitations on the cash compensation of TEP's non-employee directors. No action finding because it deals with ordinary business operations (i.e., the terms of director compensation). (*Tucson Elec. Power Co.*, 1991 SEC No-Act. Lexis 103 (Jan. 15, 1991)).**

8. **No action finding if Wilmington Trust Company (as owner trustee) and Philip Morris Credit Corporation, IBM Credit Financing Corporation, and Emerson Capital Funding, Inc. (as owner participants) make a filing with respect to the Common Facilities Interest no later than 30 days after Unit 2 begins commercial operation. This finding relates to a sale and leaseback transaction entered into in 1985 by TEP and its wholly owned subsidiary San Carlos Resources, Inc. (*Tucson Elec. Power Co.*, 1990 SEC No-Act. Lexis 1028 (June 6, 1990)).**

9. **(Related to No. 7) Finding that until Unit 2 begins commercial operation, the Common Facilities Interest would not constitute "facilities used for the generation, transmission, or distribution of electric energy" under PUHCA. Also, finding that neither the owner trustee nor any of the owner participants would, as a result of their participation in the leases, be an "electric utility company" under PUHCA. (*Tucson Elec. Power Co.*, 1986 SEC No-Act. Lexis 1720 (Jan. 27, 1986)).**

10. **No action finding with regards to a proposed spin-off of shares to TEP stockholders. (*Tucson Elec. Power Co.*, 1984 SEC No-Act. Lexis 2767 (Nov. 30, 1984)).**

11. **No action finding if TEP and Sierra Trust issue and sell commercial paper in the described manner without complying with the registration requirements. (*Tucson Elec. Power Co.*, 1983 SEC No-Act. Lexis 2244 (Apr. 22, 1983)).**

12. Notice issued that American Express filed an application for an order declaring that it is not a "holding company" under PUHCA due to its ownership of 186 shares of TEP stock. (*Tucson Elec. Power Co.*, 1992 SEC Lexis 278 (Jan. 10, 1992)).

13. Notice issued that Springerville Corp. filed an application for an order exempting it from all provisions of the Investment Company Act of 1940. Springerville Corp. will serve as a financing vehicle for the construction of Unit 2 of a generating plant in Apache County, Arizona that is leased to TEP. (*Tucson Elec. Power Co.*, 1982 SEC Lexis 133 (Dec. 15, 1982)).

QUESTION:

12. Provide copies of filings to the SEC and FERC made by the retail supplier and any affiliates or subsidiaries in the last five years pursuant to the agency's administration of PUHCA.

RESPONSE:

See "UniSource Energy Corporation and Tucson Electric Power Company Statement by Holding Company Claiming Exemption Under Rule U-3A-2 from the Provisions of the Public Utility Holding Company Act of 1935" for the years ending :

1. December 31, 1997 (Exhibit 2)

2. December 31, 1998 (Exhibit 3)

3. December 31, 1999 (Exhibit 4)

4. December 31, 2000 (Exhibit 5)

QUESTION:

13. If the retail supplier is a subsidiary of a registered holding company, identify any SEC-approved contracts with affiliates or subsidiaries in the last 5 years.

RESPONSE:

UniSource is an exempt public utility holding company. As such, the SEC does not review or approve its contracts with affiliates.

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II. Divestiture or Corporate Separation

QUESTION:

14. How would the divestiture or transfer of assets of vertically integrated utilities now serving Arizona affect the Commission's regulatory authority over the divested entities? What controls or limitations might the Commission place on divestiture or transfer of assets to limit any loss of authority over the divested assets?

RESPONSE:

TEP's Settlement Agreement provides that the divestiture of generation assets will take place as prescribed by the Commission. During the TEP Settlement Agreement process, consideration was given to the role the Commission would play concerning oversight of the entity holding the newly divested generation assets. Subsequent to the divestiture of generation assets the Commission would no longer retain jurisdiction over the newly formed generation subsidiary to the extent the subsidiary provided wholesale energy offerings.

QUESTION:

15. How would the divestiture or transfer of assets of vertically integrated utilities now serving Arizona affect federal jurisdiction under the FERC and the SEC over the divested entities?

RESPONSE:

With respect to FERC jurisdiction, this question must be analyzed separately for the divestiture or transfer of generating assets and for the divestiture or transfer of transmission assets. A separate analysis is also appropriate for the jurisdiction of the SEC jurisdiction under the PUHCA.

The divestiture of generation assets by vertically integrated utilities would not affect FERC's jurisdiction. Under the Federal Power Act, FERC has exclusive jurisdiction to determine the "justness" of wholesale rates for electric power. *See, e.g., Mississippi Power & Light v. Mississippi*, 487 U.S. 354 (1988). To the extent that the divested or transferred generating assets are used to make retail sales of power in Arizona, the Commission would have jurisdiction in accordance with Arizona law and the divestiture or transfer of such assets would not affect the extent of the Commission's jurisdiction. To the extent that wholesale sales of energy are made from the divested or transferred generating assets, FERC would have exclusive jurisdiction under

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the Federal Power Act to determine the just and reasonable rate at which such sales may occur.

There may be concerns that there would be some erosion of the Commission's jurisdiction if a vertically integrated utility transfers its generating assets to a "genco subsidiary." In such a scenario, the vertically integrated utility could enter into a wholesale power supply arrangement with the subsidiary, and the FERC would exercise jurisdiction over the rates, terms and conditions of such power supply arrangement. Based on U.S. Supreme Court rulings, a state commission could not take any action that contradicts or countermands a lawful FERC determination regarding the reasonableness of the wholesale rate in the power supply arrangement. *See Mississippi Power*, 487 U.S. 354 (finding that FERC's decision regarding the allocation of wholesale power costs among holding company affiliates preempted the Mississippi Public Service Commission's disallowance of those same costs); *Nantahala Power & Light Co. v. Thornburg*, 476 U.S. 953 (1986) (hereinafter "*Nantahala*") (finding that "when FERC sets a rate between a seller of power and a wholesaler-as-buyer, a state may not exercise jurisdiction over retail sales to prevent the wholesaler-as-seller from recovering the costs of paying the FERC-approved rate").

These cases do not, however, preclude the exercise of oversight by a state commission over the costs incurred under such a wholesale power supply arrangement. FERC has recognized that wholesale ratemaking does not, as a general matter, determine whether a purchaser has prudently chosen from among available supply options. FERC reserves that determination for the state commission in some circumstances. *See Philadelphia Electric Co.*, 15 FERC ¶ 61,264 at 61,601 (1981); *Pennsylvania Power & Light Co.*, 23 FERC ¶ 61,006, *order on reh'g*, 23 FERC ¶ 61,325 at 61,716 (1983) ("We do not view our responsibilities under the Federal Power Act as including a determination that the purchaser has purchased wisely or has made the best deal available."); *Southern Company Services*, 26 FERC ¶ 61,360 at 61,795 (1984); *Pacific Power & Light Co.*, 27 FERC ¶ 61,080 at 61,148 (1984); *Minnesota Power & Light Co. and Northern States Power Co.*, 43 FERC ¶ 61,104 at 61,342-43, *reh'g denied*, 43 FERC ¶ 61,502, *order denying reconsideration*, 44 FERC P61,302 (1988); *Palisades Generating Co.*, 48 FERC ¶ 61,144 at 61,574 and n.10 (1989).

While the FERC determines whether it is against the public interest for [the wholesale supplier] to charge a particular rate in light of its costs, the state commission determines whether it is against the public interest for [the buyer] to pay a purchase price in light of alternatives. *Pike County Light & Power Co. v. Pennsylvania Public Utility Comm'n*, 465 A.2d 735, 738 (Pa. Commw. Ct. 1983) (*Pike County*).

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The divestiture or transfer of transmission assets would result in FERC exercising jurisdiction over the rates, terms and conditions of any unbundled retail transmission service that occurs as a result. Under section 201 of the Federal Power Act, FERC has jurisdiction over interstate transmission of electric energy. FERC has asserted jurisdiction over unbundled retail transmission service, that occurs when "a retail transaction is broken into two products [one being energy and one being transmission] that are sold separately (perhaps by two different suppliers: an electric supplier and a transmission supplier)" Order No. 888.

Even without the completed divestiture or transfer of transmission assets, FERC has asserted jurisdiction over unbundled retail transmission service under the present Arizona competition plan. Although TEP and APS have not divested or transferred their transmission facilities, FERC has asserted jurisdiction over the rates, terms and conditions of transmission service provided to both retail choice customers and standard offer customers under the Arizona competition program. *See Arizona Independent Scheduling Administrator Assoc., et al.*, 94 FERC ¶ 61,302 (2001). This issue is now pending before the Ninth Circuit Court of Appeals.

PUHCA charges the SEC with regulating public utility holding companies – any company owning ten percent (10%) or more of the outstanding stock of a public utility company. Under PUHCA, a public utility company is defined to include any company that "owns or operates facilities used for the generation, transmission, or distribution of electric energy for sale..." Thus, because the divestiture or transfer of assets by vertically integrated utilities may result in the formation of a new public utility company under PUHCA, such transactions may require that filings be made with the SEC, and/or that the SEC pre-approve particular transactions. A definitive assessment of the impact of the divestiture or transfer of assets of the vertically integrated utilities under PUCHA can only be undertaken based on the facts of a specifically proposed transaction.

QUESTION:

16. How would the potential effects of divestiture or transfer of assets on Commission authority differ under a competitive retail regime than under a monopoly regime?

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RESPONSE:

Generation divestiture under a competitive marketplace or regulated framework would result in the Commission ceding regulation of assets engaged in providing wholesale power to FERC.

Under either framework the Commission's role in the market place may be different. For example, under a competitive marketplace regime, the Commission would rely on "market forces" to ensure that rates for electric service in Arizona remain at competitive levels. Under a regulated framework the Commission would rely on its authority and oversight to ensure that electric service rates are reasonable.

QUESTION:

17. How would a requirement that competitive services, such as generation services, be offered only through a separate corporate affiliate affect the Commission's regulatory authority and any risks identified in response to the questions above?

RESPONSE:

As stated previously, the Commission's requirement that utilities transfer or divest generation services to a subsidiary or affiliate will result in the Commission losing the authority to regulate the newly formed generation entities.

QUESTION:

18. For any risks resulting from a divestiture requirement or a requirement that competitive services be offered through separate affiliate, how might those risks be eliminated or reduced? Specifically –

    a. What actions might the Arizona Commission take?

RESPONSE:

The Commission ensures that risks associated with divestiture are minimized through the approval of the divesture plan. The Commission's divestiture plan approval and adoption of utilities' settlement agreements, codes of conduct, and policies and procedures regarding divestiture can mitigate any potential risks associated with the transfer of assets. At the

federal level, FERC has established guidelines and procedures to ensure there are no negative impacts related to generation divestiture.

QUESTION:

b. Are there actions that the Commission might encourage the FERC or the SEC to take to maintain adequate oversight for the protection of ratepayers?

RESPONSE:

FERC has taken steps to ensure adequate oversight for the protection of ratepayers. Under Order No. 2000, FERC has mandated that all RTOs include mechanisms for an "independent market monitor." In addition, FERC has imposed code of conduct restrictions on RTOs and public utilities under the Federal Power Act. The independent market monitor will provide a framework for the production of a periodic assessment of the functioning of the wholesale competitive market. The market monitor will be charged with identifying anti-competitive market behavior and any design flaws in the market. This information can then be used to correct any market deficiencies, and to take appropriate action against any market participants that exercise market power. The code of conduct restrictions are designed to ensure that RTO employees are truly independent of participants in the electric markets.

In addition, FERC has strongly enforced policies designed to ensure that there is no potential for harm to ratepayers due to any transactions between a vertically integrated utility and an affiliate. Thus, if a Commission requirement that competitive services be offered through a separate affiliate results in the need for an affiliate to enter into a services or power supply arrangement with the (formally) vertically integrated utility, then there is a body of FERC precedent that would come into play. Under FERC precedent, any affiliate arrangement would have to pass FERC's strict affiliate requirements. FERC's requirements address both non-power goods and services offered by an affiliate to a utility (and vice-versa), as well as power supply arrangements between a utility and an affiliate.

5. RESPONSE TO COMMISSIONER SPITZER'S QUESTIONS DATED JANUARY 22, 2002.

QUESTION:

1. In a vertically integrated utility model, what incentives (regulatory, financial and ratemaking) exist for the expanded use of renewable energies?

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RESPONSE:

TEP believes that regardless of whether it is operating under a "vertically integrated utility model" or in a "competitive marketplace" there will be incentives to research, develop and, where appropriate, implement renewable energy technologies. These incentives include the desire to (a) protect the environment in which TEP serves (and its employees and ratepayers live); (b) diversify generation sources; and (c) reduce dependence on non-renewable sources.

Under the vertically integrated utility model the primary incentive for the use of renewable energies (such as solar and wind) has been a Commission-approved EPS. Production tax credits, reduced property tax rates for capital intensive renewable generation assets, grants for hardware buy-down payments, income tax credits for initial investments and other governmental subsidies also provide incentives for the development of renewable energies. The certainty of cost recovery through a surcharge to energy rates such as provided in the EPS has also been a key for utilities to develop renewable energies.

QUESTION:

2. In a competitive electric market model, what incentives exist for the expanded use of renewable energies?

RESPONSE:

In a competitive marketplace the biggest incentive for the expanded use of renewable energies is profitability. The development of renewable generation resources in the competitive marketplace has been driven primarily by financial incentives such as the availability of federal production tax credits and the imposition of renewable portfolio requirements rather than by the type of marketplace that exists.

For example, TEP believes that the renewable generation technology that has shown the most promise is solar generated power. However, solar generation systems are very expensive and may not be proportionately profitable to their producers. Consequently, the development of solar generation in competitive markets has been very small compared to the development of other renewable resources such as wind or landfill gas. Solar generation systems produce electricity at a cost five to ten times higher than that of landfill gas systems. This is attributable to higher initial costs and

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lower annual load factors of solar energy production. By way of comparison, solar generation annual load factors are approximately 25% while annual load factors for landfill gas systems are approximately 95%. Thus, experience has shown that in the competitive markets of Texas, Pennsylvania and California, the development of wind and landfill gas energy generation systems has been the predominant renewable trend. The development of wind and landfill gas renewable resources is occurring at similar rates in traditional vertically integrated regulated states like Colorado, Minnesota, Iowa, Nebraska, Washington and Oregon with an equally small solar generation component.

QUESTION:

3. In a vertically integrated utility model, what disincentives (regulatory, financial and ratemaking) exist for the expanded use of renewable energies?

RESPONSE:

TEP believes that high costs of developing renewable energy technologies and questions surrounding the reliability of some of the technologies are the primary constraints to wide spread commercialization of renewable generation. TEP believes that these constraints would exist under both a vertically integrated utility model and a competitive marketplace.

TEP believes that the risk associated with a multi-million dollar investment to develop renewable generation technologies, while still a disincentive, is better managed under a traditional vertically integrated utility model than the competitive marketplace. Regulators, such as the Commission, can encourage the research and development of renewable generation technologies through favorable regulation and rate treatment of associated expenses. The competitive marketplace, on the other hand, does not have a similar means of providing financial assistance for research and development. Competition will only reward those who ultimately take the considerable risk and financially sustain the <u>successful</u> research, development and marketing of renewable energy technology.

QUESTION:

4. In a competitive electric market utility model, what disincentives exist for the expanded use of renewable energies?

RESPONSE:

See Response to Question No. 3, above.

QUESTION:

5. During Arizona's period of reliance on the vertically integrated utility model, what renewable energy programs were enacted in Arizona?

RESPONSE:

TEP's response is limited to its own renewable energy program development.

In response to the 1993 Integrated Resource Plan's goal that 5 MW of renewable generation be in place by the end of year 2000, TEP implemented a 5 MW "landfill gas energy" generation system. In August 1999, after a five-year development period during which TEP obtained permits and developed project agreements with the City of Tucson and Zapco (a landfill gas developer), the "landfill gas energy" generation system began producing power. In addition, during this period, TEP developed 35 kW of solar electric generation systems. TEP started an active wind survey program in 1997 for the availability of commercial grade wind resources. The wind survey program continues today in an expanded form.

QUESTION:

6. Once Arizona's adoption of a competitive electric market model, what renewable energy programs have been enacted in Arizona?

RESPONSE:

Since the advent of a competitive marketplace in Arizona, TEP has implemented a number of additional renewable energy projects. However, these new projects were not developed in response to the competitive marketplace but were a continuation of TEP's efforts as a vertically integrated utility. In January 2000, TEP implemented a "green" pricing program, called "GreenWatts." However, less than 1% of TEP's available renewable energy production has been purchased by customers under this program. TEP also implemented a "true net metering" program for solar electric generators of 10 kW or less (with Commission approval) in October 2000. TEP added nearly 300 kW of solar electric generation in the last quarter of 2000 and over 1,300 kW of solar generation in 2001. TEP has expanded its wind survey program to 14 sites in Arizona and 1 in New Mexico.

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In reality, the development and installation of TEP's largest renewable generation asset began prior to the competitive marketplace and expanded in response to the Commission's implementation of the EPS, not because of the transition to a competitive energy marketplace.

QUESTION:

7. Under the vertically integrated utility model, what incentives exist to build newer plants that are less damaging to the environment to replace older, dirtier plants?

RESPONSE:

Traditionally, new generating plants are built only when there is a need and owners believe that they will be able to earn a reasonable rate of return on their investment. Similarly, existing generating plants are removed from service when they no longer operate efficiently or are no longer needed. Public service corporations that have an obligation to provide service must plan to meet present and future customer needs in a prudent manner. The economic impact to ratepayers and the impact on the environment are among the factors that regulators generally consider when reviewing applications for authority to build generating plant s or recover the costs of construction in rates.

The Commission, is in a position to provide incentives to encourage the construction of new plants. These incentives can be included in the provisions of CECs and related ratemaking orders. Obviously, the more favorable the provisions, the more incentive a public service corporation has to build new plants to replace old ones.

TEP believes, however, that in order to reliably serve its customers that none of its older plants will be retired prematurely as a result of proposed new generation projects. This belief applies to either a vertically integrated utility model or a competitive marketplace.

QUESTION:

8. Under the competitive electric market model, what incentives exist to build newer plants that are less damaging to the environment to replace older, dirtier plants?

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RESPONSE:

In the competitive electric marketplace, the merchant generator must determine whether market prices for its generation products will be sufficient to provide an acceptable return on investment. In this regard, the merchant generator must also compare alternate projects that are competing for capital resources. The primary incentive to build a new plant in the competitive marketplace would be that it has an economic advantage over competing plants.

QUESTION:

9. Under the vertically integrated utility model, what disincentives (regulatory, financial and ratemaking) exist to build newer plants that are less damaging to the environment to replace older, dirtier plants?

RESPONSE:

Public service corporations face many uncertainties when undertaking to construct new plants. Uncertainty is a major disincentive when decisions are made concerning the investment of hundreds of millions of dollars in generating plant construction. These uncertainties include the outcome of siting hearings at the beginning of the process and continue through to ratemaking and prudency hearings after the plant has been completed. In addition to the regulatory oversight of the Commission, other agencies (both state and federal) involved with air, water and land also require approvals or permits in order for construction to take place.

QUESTION:

10. Under the competitive electric market model, what disincentives exist to build newer plants that are less damaging to the environment to replace older, dirtier plants?

RESPONSE:

A merchant generator in the competitive marketplace faces the same disincentives as a regulated public service corporation, with the exception of an "after-the fact" prudency review. Generally, however, merchant generators must first present a new plant to the financial market for approval in order to obtain financing.

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QUESTION:

11. During Arizona's period of reliance on the vertically integrated utility model, what emphasis did the Commission place on pollution control measures in Certificates of Environmental Compatibility?

(a) What is the most stringent pollution control measure placed on a CEC during Arizona's reliance on the vertically integrated utility model?

RESPONSE:

TEP is not specifically aware of the evidence presented in support of, or the terms and conditions imposed as a result of, CECs issued prior to the Electric Competition Rules, other than those it received. The last CEC TEP received was in 1987 and air quality was an important issue that was addressed in that proceeding. TEP is aware that in the past few years the Commission has placed additional conditions regarding pollution control measures on CECs that it has approved.

TEP believes that the emphasis placed on pollution control measures by the Commission is a result of the effort of the Commissioners to balance the need for generating plants with the desire to protect the environment. This is not directly related to the existence of a competitive marketplace. In addition, air quality in Arizona is regulated by the Arizona Department of Environmental Quality ("ADEQ"). Thus, pollution control measures placed on a CEC are in addition to any regulation by ADEQ.

QUESTION:

12. Since Arizona's adoption of a competitive electric market model, what emphasis has the Commission placed on pollution control measures in Certificates of Environmental Compatibility?

(a) What is the most stringent pollution control measure placed on a CEC since Arizona's adoption of a de-regulated utility model?

RESPONSE:

See Response to Question 12 (b), below.

QUESTION:

(b) What is the likelihood that that measure would have been placed on a similar CEC in a vertically integrated utility model?

RESPONSE:

TEP is not in a position to determine which CEC condition can be considered the most "stringent pollution control measure" for projects developed by other parties. A.R.S. § 40-360, et seq. has not been pre-empted by the Electric Competition Rules. Accordingly, TEP believes that the Commission would have placed the same conditions that it actually has on CECs presented to it whether or not the Electric Competition Rules were in place. See also TEP's response to Question No. 11, above.

QUESTION:

13. During Arizona's period of reliance on the vertically integrated utility model, what amount of excess generating capacity existed in Arizona?

RESPONSE:

TEP has provided electric service in Arizona for many decades. This is also true of APS and SRP. Excess generating capacity has been a subject of debate over the years. Parties have disagreed as to what amount constitutes excess generating capacity and what amount of reserve capacity is prudent.

The WSCC 1997 Loads & Resource Summary reported a Total Firm Load of 18,570 MW and Total Resources - Including Net Transfers of 19,727 MW for the AZNMNV region. This margin of 1,157 MW resulted in a 6.2% margin over firm load for the 1997 summer peak demand.

The WSCC 2000 Loads & Resource Summary reported a Total Firm Load of 21,552 MW and Total Resources - Including Net Transfers of 23,274 MW for AZNMNV region. This margin of 1,722 MW resulted in an 8.0% margin over firm load for the 2000 summer peak demand. A majority of the margin increases can be contributed to higher demand on imports from outside the AZNMNV region and additional available hydro resources.

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QUESTION:

14. Since Arizona's adoption of a competitive electric market model, what amount of excess generating capacity existed in Arizona?

RESPONSE:

The volatile gas and wholesale market in the Southwest in 2000 made generating plant investments very attractive. Consequently, 1,962 MW of thermal capacity in Arizona was placed into service in 2001.

The 2002 WSCC Loads & Resource Summary forecasts an 11.0% projected margin over firm load for the 2002 summer peak demand in the AZNMNV region. This margin is based on the assumption that approximately 2,500 MW of capacity will be placed into service prior to August 2002. However, given the recent forward wholesale market prices (January 2002), many IPP generation plant projects have been cancelled or scaled down. It remains to be seen if the forecasted 2002 margin over firm load will be achieved due to the downturn in the wholesale market.

6. RESPONSES TO COMMISSIONER IRVIN'S QUESTIONS DATED FEBRUARY 7, 2002.[5]

I. Arizona Independent Scheduling Administrator

QUESTION:

1. Please address whether Arizona's Constitution prohibits the Commission from giving up any authority with respect to the pricing of services by public service corporations which occur solely within the state.

RESPONSE:

The Arizona Constitution provides:

> **The Corporation Commission shall have full power to, and shall, prescribe just and reasonable classifications to be used and just and reasonable rates and charges to be made and collected, by public service corporations within the state for service rendered therein.**
> **(Ariz. Const. art. 15, § 3)**

[5] TEP has numbered Commissioner Irvin's questions for reference in response.

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The question of what the Commission may delegate to the competitive marketplace has been debated and litigated throughout the development and implementation of the Electric Competition Rules. TEP believes that interested parties remain divided over whether the Commission may delegate to the marketplace the determination of just and reasonable rates. TEP also believes that this issue will need to be resolved during the course of the Commission's review of the Electric Competition Rules in order for a determination to be made as to whether or a not a competitive marketplace is in the public interest and, if so, the terms and conditions of competition.

TEP believes that its CC&N can only be modified after it has been afforded the due process of notice and hearing provided by ARS § 40-252.

QUESTION:

2. Should Arizona be willing to let the federal government take over pricing jurisdiction (market-based rates) for all retail transactions which occur in the state, or is this an inevitable (and proper) result of opening retail markets to competition?

RESPONSE:

See TEP's Response to Question No. 15 of Chairman Mundell's Supplemental Questions dated January 30, 2002.

QUESTION:

3. Can Arizona's UDCs modify their tariffs with the FERC to conform with AISA protocols so that retail transactions can still take place without the AISA? How many times has the AISA been used to resolve disputes over transmissions issues to date?

RESPONSE:

TEP has modified its Open Access Transmission Tariff ("OATT") with FERC to conform to AISA protocols. The only item that is in the AISA protocols that is not in TEP's OATT, is the temporary mechanism establishing priority access to TEP's transmission path from Four Corners to "Direct Access Scheduling Coordinators". TEP has stated that it would commit to this

priority in the event there were no AISA protocols. TEP would also be willing to file modifications of its OATT to incorporate equivalents of the AISA protocols in the event that the AISA does not exist. The Commission could also adopt the AISA protocols as part of revised Electric Competition Rules.

To date, the AISA has provided no dispute resolution services regarding transmission issues. The only functions that the AISA has performed are FERC filings and billing of operational costs to the UDCs. The AISA is, however, planning website development to post the names of potential arbitrators that could be used in the case of disputes.

II. Retail Electric Competition Rules ("Rules")

QUESTION:

(b) If the majority of market participants intend to market electricity only to industrial, large commercial and load serving ESPs entities, should retail markets be limited by load size to allow those entities with true bargaining power to negotiate Direct Access?

RESPONSE:

TEP believes that all market participants, regardless of size and bargaining power, should be allowed to negotiate for Direct Access service. To otherwise limit load size could cause UDCs to serve a disproportionate number of "lower load factor" customers thereby requiring the UDCs to incur higher costs of service for Standard Offer customers.

QUESTION:

2. What will be a UDC's primary functions in a competitive market?

RESPONSE:

In a competitive marketplace UDCs should be responsible for the safe transmission and distribution of electricity to the consumers of Arizona as well as providing generation service to standard offer customers on a pass-through basis. The UDCs should also provide construction and maintenance services related to distribution facilities.

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QUESTION:

3. Is it important to first establish functional wholesale markets before creating robust retail markets in electric generation? If so, why? If not, why?

RESPONSE:

Yes. It is paramount that the wholesale electricity markets are both competitive and functional in order to support retail markets. Retail competition is simply the ability to obtain and market wholesale energy to different classes of retail customers currently served by vertically integrated utilities. In order for these retail customers to benefit from this competition, the retail energy providers must be able to supply the power at costs lower than the current regulated utility rates. This can only be accomplished through access to a robust and competitive wholesale market. This wholesale market, however, must be functional. It must have a level playing field that neither favors nor hampers any participant (whether it be utilities, governmental entities, IPPs or ESPs, etc.) and provides protection to the retail customers without putting undue risks on UDC's to be providers of last resort without a mechanism to recover the associated costs.

QUESTION:

4. When price caps are lifted for the majority of Arizona Consumers, what assurances do we have that volatility in the market (for both natural gas and electricity) will not result in unstable or inflated rates? Will the generation price of electricity fluctuate with the price of natural gas?

RESPONSE:

Under the Electric Competition Rules, when retail price caps are lifted, the Commission will be responsible for reviewing proposed cost recovery mechanisms, such as fuel and purchased power adjustment clauses. However, there are no assurances that wholesale gas and electricity markets will be stable. Upon expiration of the current rate freezes, the impact of short term commodity price spikes to Arizona consumers will be proportional to the degree a provider utilizes spot and short term purchases in its resource portfolio. If the provider has a balance of short and long term, and fixed and variable components in its resource mix, then the negative impact of brief

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energy price spikes on retail electricity rates will be mitigated. See also the Response to Question No. 5, below.

To some extent, the generation price of electricity will fluctuate with the price of natural gas because the spot price of electricity correlates to the spot price of natural gas during peak times of year and peak times of day. During non-peak times, the price relationship between gas and electricity diverges, as gas generators are taken off-line or reduced to minimum operating levels. During periods of low demand, the spot price of electricity is closely related to the marginal cost of the next type of generation in the dispatch queue, which in the western power markets is coal-fired generation. The point at which the spot price switches from gas to coal depends on the amount of hydroelectric and nuclear generation that is available.

QUESTION:

5. Should there be a provision added to R14-2-1606 (B) which would allow/limit a UDC to contract for wholesale power in three or five year intervals? What would be a proper length for contracts?

RESPONSE:

A UDC should be allowed to contract for power in mid and long-term increments. In order to mitigate some of the short-term and spot price volatility, a UDC should have a balanced, diversified portfolio of energy contracts of varying terms, including mid- (three to five year) and long- (five to 10 years, and longer) term. These types of contracts could be approved by the Commission to ensure that they are in the customers' best interest and that the UDC will be provided recovery of the associated costs.

QUESTION:

6. What are the real benefits to residential consumers and small businesses in retail competition, other than consumer choice? Will IPPs market their power directly to retail customers, or are their efforts mainly focused on selling power to wholesale customers?

RESPONSE:

TEP believes that ESPs in the state have limited their marketing efforts to larger energy consumers. However, with the onset of deregulation in Arizona electric rates have decreased for all consumer classes. Additionally, residential consumers and small commercial customers have been exposed to

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various ancillary service offerings such as residential and commercial competitive meter reading, energy audits, and billing services. Competition in the electric industry has also promoted and expanded consumer exposure to various other products and services not directly related to the energy industry such as home security systems and internet access.

It is TEP's belief that IPPs will continue to focus on wholesale customers, both UDCs and ESPs. Due to the requirements to serve retail customers (A.A.C.R14-2-1603) it is not likely that an IPP will serve retail customers directly, but could create an affiliate ESP to serve large industrial consumers.

QUESTION:

7. Currently, is residential choice a real option? If not now, when?

RESPONSE:

TEP does not believe that there currently is much of a competitive market for residential customers. As stated in the previous question, ESPs have limited their marketing activities to large energy consumers to date, making residential choice limited. TEP cannot predict if or when there will be a competitive residential market.

QUESTION:

8. What provisions, if any, are necessary to effectuate a gradual replacement of those existing plants in Arizona which are older, more polluting and less efficient than the newer combined cycle plants currently being built?

RESPONSE:

From an economic perspective, new generation plants will be built if the owners believe that they will earn an acceptable risk-adjusted rate of return on their investment in the new facility. In a similar manner, owners of existing facilities will remove existing facilities from service if they do not believe that additional expenditures for capital and operating costs will earn an acceptable risk-adjusted rate of return.

In the regulated framework, incentives to build new plants to replace old plants, which still meet the economic test described above, are provided by the regulators. If the regulators believe that it is in the public interest to do so,

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they will make assurances to the regulated entity for full recovery of the new asset and stranded cost, if any, of the old asset.

Merchant generators will build new plants if there is an operating cost advantage over competitors. The new plant will be dispatched before less efficient units, thereby ensuring a consistently high level of production. Although environmental improvement above that required by the current laws and regulations, for existing plants, may not be a variable in the decision to build the "clean" generator, it is an ancillary benefit.

If newer, more efficient generating units can generate electricity at a lower incremental cost than older units, they will be dispatched before the older units. Thus, even if the older units are still economic and are not removed from service, the production from these units will decrease. Assuming that the older units are "dirtier" than the new units, a portion of the perceived environmental benefit associated with retiring the older units will be achieved. See also TEP's Response To Commissioner Spitzer's Questions, Nos. 7 – 10 dated January 22, 2002.

QUESTION:

9. What are the long-term effects of divestiture for APS? How does the Commission guard against PG&E situation, where the distribution company declares bankruptcy after profits have flowed to its parent holding company?

RESPONSE:

For TEP's opinion on the long-term effects of divestiture, see TEP's Response to Chairman Mundell's Question No. IV. C.

The Commission can guard against the bankruptcy of a UDC by affording a meaningful opportunity for full recovery of the prudent costs incurred in providing distribution services and standard offer energy requirements. If a UDC is allowed to earn a fair rate of return on its capital, there would be no incentive to liquidate the equity capital of the utility and declare bankruptcy.

Respectfully submitted this 25th day of February 2002.

ROSHKA HEYMAN & DEWULF, PLC

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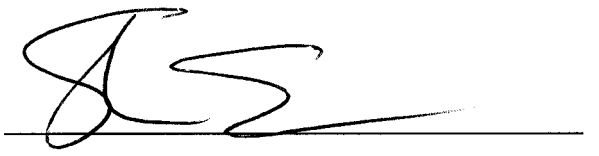

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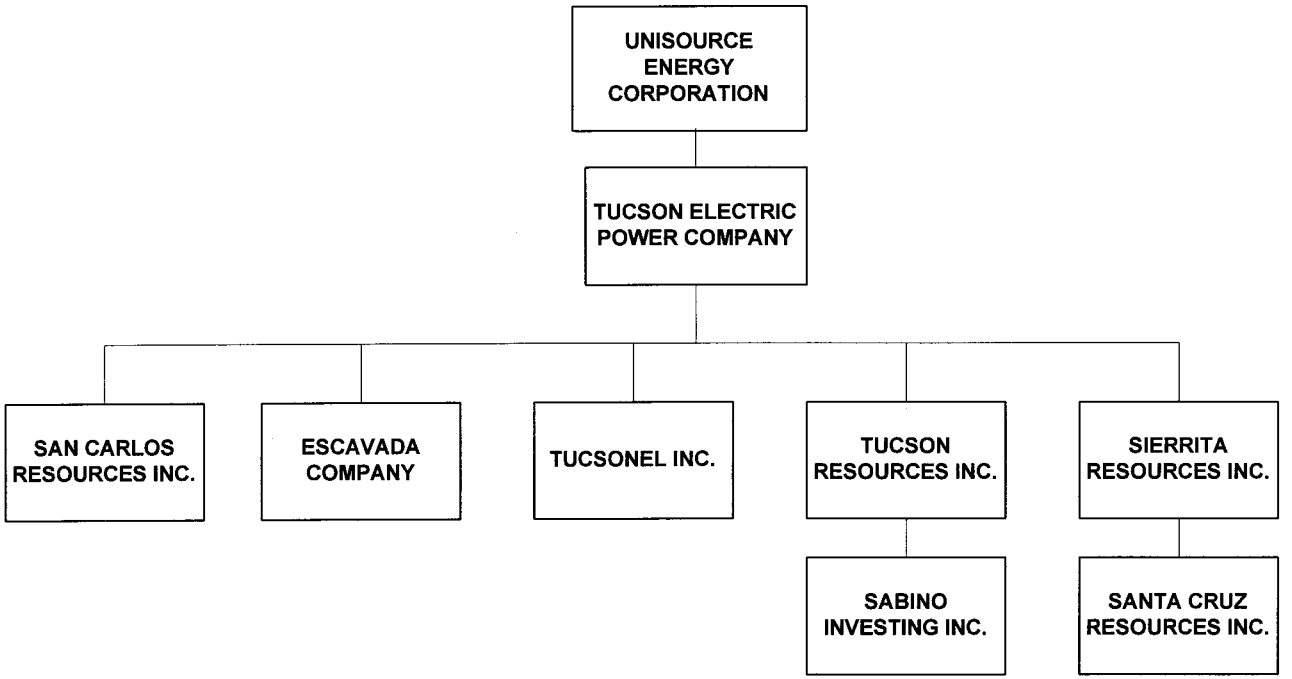
1

RETAIL SUPPLIER'S CORPORATE STRUCTURE



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File No. 69-427

File No. 69-293

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM U-3A-2

Statement by Holding Company Claiming Exemption Under Rule U-3A-2 from the Provisions of the Public Utility Holding Company Act of 1935

To be Filed Annually Prior to March 1

UNISOURCE ENERGY CORPORATION

hereby files with the Securities and Exchange Commission, pursuant to Rule 2, Amendment No. 1 to its statement claiming exemption as a holding company, and

TUCSON ELECTRIC POWER COMPANY

hereby files with the Securities and Exchange Commission, pursuant to Rule 2, its statement claiming exemption as a holding company from the provisions of the Public Utility Holding Company Act of 1935, and submits the following information:

1. **Name, State of organization, location and nature of business of claimant[s] and every subsidiary thereof, other than any exempt wholesale generator (EWG) or foreign utility company in which claimant[s] directly or indirectly holds an interest.**

UniSource Energy Corporation ("UniSource") was incorporated under the laws of the State of Arizona and is a holding company organized to acquire and hold the securities of other corporations. On January 1, 1998, UniSource and Tucson Electric Power Company ("TEP") completed a statutory share exchange (the "Share Exchange"), pursuant to which the outstanding common stock of TEP was exchanged, on a share-for-share basis,

for shares of UniSource common stock, no par value. As a result of the Share Exchange, TEP became, and is now, a wholly-owned subsidiary of UniSource.

Following the Share Exchange, UniSource acquired from TEP all of the outstanding stock of MEH Corporation.

The information contained in this statement is furnished taking into account the Share Exchange and such transfer of the outstanding stock of MEH Corporation.

UniSource controls, directly or indirectly, fifty percent (50%) or more of the "voting securities" of the following subsidiaries:

I. TEP was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of UniSource. TEP was organized as an operating public utility engaged in the generation, purchase, transmission, distribution and sale of electricity to retail customers in the City of Tucson, Arizona, and the surrounding area and to wholesale customers. TEP holds the stock of Escavada Company, San Carlos Resources Inc. ("San Carlos"), Sierrita Resources Inc. ("SRI"), Tucson Resources Inc. ("TRI") and Tucsonel Inc.

A. Escavada Company was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of TEP engaged in the business of maintaining miscellaneous assets and property.

B. San Carlos was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of TEP. San Carlos holds the title to Unit No. 2 of the Springerville Generating Station, a generating facility in commercial operation located in Apache County, Arizona, and is the lessee, jointly and severally with TEP, of an undivided one-half interest in all facilities and personal property used in common

between Unit No. 1 and Unit No. 2 of the Springerville Generating Station. San Carlos is not the operator of Unit No. 2 or any of such common facilities.

C. SRI was incorporated under the laws of the State of Delaware and is a wholly-owned subsidiary of TEP. SRI was formed primarily to invest in financial assets.

1. Santa Cruz Resources Inc. was incorporated under the laws of the State of Delaware and is a wholly-owned subsidiary of SRI. Santa Cruz Resources Inc. holds an investment in a financial service company.

D. TRI was incorporated under the laws of the State of Delaware and is a wholly-owned subsidiary of TEP. TRI was organized primarily to invest in financial assets.

1. Sabino Investing Inc. was incorporated under the laws of the State of Delaware and is a wholly-owned subsidiary of TRI. Sabino Investing Inc. holds certain real estate assets.

E. Tucsonel Inc. was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of TEP. Tucsonel Inc. is presently inactive.

II. MEH Corporation was incorporated under the laws of the State of Arizona and effective January 1, 1998 became a wholly-owned subsidiary of UniSource. MEH Corporation was organized to hold the stock of Advanced Energy Technologies, Inc., Millennium Energy Holdings, Inc., Nations Energy Corporation and Southwest Energy Solutions, Inc.

A. Advanced Energy Technologies, Inc. (formerly known as TEP Solar Energy Corporation) was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of MEH Corporation. Advanced Energy Technologies, Inc. was

organized to develop certain distributed energy projects, as well as renewable energy sources.

1. Global Solar Energy, L.L.C. was formed under the laws of the State of Arizona and is fifty percent (50%) owned by Advanced Energy Technologies, Inc. Global Solar Energy, L.L.C. was organized for the purpose of engaging in the manufacture and sale of thin film photovoltaic modules for distributed energy applications.

B. Millennium Energy Holdings, Inc. was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of MEH Corporation. Millennium Energy Holdings, Inc. was organized to hold TEP's interest in New Energy Ventures, L.L.C in 1997. As of January 1, 1998, MEH Corporation was transferred to UniSource.

1. New Energy Ventures, L.L.C. was formed under the laws of the State of Arizona and is fifty percent (50%) owned by Millennium Energy Holdings, Inc. New Energy Ventures, L.L.C. was organized for the purpose of acting as a buyer's agent in procuring electric energy, performing energy services, engaging in power marketing and trading and other energy-related activities.

a. NEV California, L.L.C. was formed under the laws of the State of Arizona and is a wholly-owned subsidiary of New Energy Ventures, L.L.C. NEV California, L.L.C. was organized for the purpose of acting as a buyer's agent in procuring electric energy, performing energy services, engaging in power marketing and trading and other energy-related activities.

b. NEV East, L.L.C. was formed under the laws of the State of Arizona and is a wholly-owned subsidiary of New Energy Ventures, L.L.C. NEV East,

L.L.C. was organized for the purpose of acting as a buyer's agent in procuring electric energy, performing energy services, engaging in power marketing and trading and other energy-related activities.

c. NEV Midwest, L.L.C. was formed under the laws of the State of Arizona and is a wholly-owned subsidiary of New Energy Ventures, L.L.C. NEV Midwest, L.L.C. was organized for the purpose of acting as a buyer's agent in procuring electric energy, performing energy services, engaging in power marketing and trading and other energy-related activities.

d. NEV Technologies, L.L.C. was formed under the laws of the State of Arizona and is a wholly-owned subsidiary of New Energy Ventures, L.L.C. NEV Technologies, L.L.C. was organized to market, own and operate distributed generation systems. NEV Technologies, L.L.C. does not currently own or operate any distributed generation systems.

C. Nations Energy Corporation was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of MEH Corporation. Nations Energy Corporation was organized to develop and invest in independent power projects in global energy markets, including QFs, EWGs and FUCOs, located in the United States and abroad.

1. Nations-Colorado Energy Corporation was incorporated under the laws of the State of Delaware and is a wholly-owned subsidiary of Nations Energy Corporation. Nations-Colorado Energy Corporation holds a general and limited partnership interest in a partnership which in turn owns and operates an electric and thermal energy generating

facility serving Coors Brewing Company in Golden, Colorado. The facility is a "qualifying facility" under the Public Utility Regulatory Policies Act of 1978.

2. Nations Energy Holland Holding B.V. was formed under the laws of the Netherlands and is a wholly-owned subsidiary of Nations Energy Corporation. Nations Energy Holland Holding B.V. was organized for the purpose of investing in international independent power projects.

a. Nations Kladno B.V. was formed under the laws of the Netherlands and is a wholly-owned subsidiary of Nations Energy Holland Holding B.V. Nations Kladno B.V. was organized for the purpose of holding an interest in an independent power project in the Czech Republic.

b. Nations Kladno II B.V. was formed under the laws of the Netherlands and is a wholly-owned subsidiary of Nations Energy Holland Holding B.V. Nations Kladno II B.V. was organized for the purpose of holding an interest in an independent power project in the Czech Republic.

3. Nations International Ltd. was incorporated under the laws of the Cayman Islands and is a wholly-owned subsidiary of Nations Energy Corporation. Nations International Ltd. was organized for the purpose of investing in international independent power projects.

a. Biomasa Generacion, S. de R.L. de C.V. was formed under the laws of Honduras and is ninety-one percent (91%) owned by Nations International Ltd. Biomasa Generacion, S. de R.L. de C.V. was organized for the purpose of developing and owning biomass-fueled non-utility generating projects in Honduras. At the appropriate time,

Biomasa Generacion, S. de R.L. de C.V. anticipates filing an EWG or foreign utility company application for any such projects that are constructed in Honduras.

b. Nations BioGen Ltd. was incorporated under the laws of the Cayman Islands and is a wholly-owned subsidiary of Nations International Ltd. Nations BioGen Ltd. was organized for the purpose of investing in international independent power projects.

c. Nations Curacao Ltd. was incorporated under the laws of the Cayman Islands and is a wholly-owned subsidiary of Nations International Ltd. Nations Curacao Ltd. was organized for the purpose of investing in international independent power projects.

d. Suministradora de Materials Organicos, S.R.L. de C.V. was formed under the laws of Honduras and is ninety-one percent (91%) owned by Nations International Ltd. Suministradora de Materials Organicos, S.R.L. de C.V. was organized for the purpose of administering fuel supply to biomass projects in Honduras.

D. Southwest Energy Solutions, Inc. was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of MEH Corporation. Southwest Energy Solutions, Inc. was organized for the purpose of supplying a variety of ancillary "beyond the meter" energy products and services to retail electric customers.

1. SWPP Investment Company was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of Southwest Energy Solutions, Inc. SWPP Investment Company was organized for the purpose of manufacturing and selling concrete utility products.

a. Sentinel Concrete Utility Poles, L.L.C. was formed under the laws of the State of Arizona and is fifty percent (50%) owned by SWPP Investment Company. Sentinel Concrete Utility Poles, L.L.C. was organized for the purpose of marketing and distributing concrete utility poles and products.

b. SWPP International Ltd. was incorporated under the laws of the Cayman Islands and is a wholly-owned subsidiary of SWPP Investment Company. SWPP International Ltd. was organized to invest in a Mexican joint venture(s) related to the manufacturing and selling of concrete utility poles.

(1) Productos de Concreto Internacionales, S. de R.L. de C.V. was formed under the laws of Mexico and is fifty percent (50%) owned by SWPP International Ltd. Productos de Concreto Internacionales, S. de R.L. de C.V. was organized for the purpose of manufacturing and selling of concrete utility poles and products.

UniSource controls, directly or indirectly, less than ten percent (10%) of the "voting securities" of the following companies: None.

2. **A brief description of the properties of claimant[s] and each of its subsidiary public utility companies used for the generation, transmission and distribution of electric energy for sale, or for the production, transmission and distribution of natural or manufactured gas, indicating the location of principal generating plants, transmission lines, producing fields, gas manufacturing plants, and electric and gas distribution facilities, including all such properties which are**

outside the State in which claimant[s] and its subsidiaries are organized and all transmission or pipelines which deliver or receive electric energy or gas at the borders of such State.

UniSource does not directly own any property used for the generation, transmission and distribution of electric energy for sale, or for the production, transmission and distribution of natural or manufactured gas.

As of December 31, 1997, TEP owned or participated in an overhead electric transmission and distribution system consisting of 511 circuit-miles of 500 kV lines, 1,122 circuit-miles of 345 kV lines, 350 circuit-miles of 138 kV lines, 440 circuit-miles of 46 kV lines and 9,643 circuit-miles of lower voltage primary lines. The underground electric distribution system is comprised of 5,071 cable miles. Approximately twenty-four percent (24%) of the poles upon which the lower voltage lines are located are not owned by TEP. Electric substation capacity associated with the above-described electric system consisted of 173 substations with a total installed transformer capacity of 5,329,605 kVA. The above facilities are all located in Arizona except for certain transmission lines consisting of 560 circuit-miles of 345 kV in which TEP has a fractional undivided interest and which are located in the State of New Mexico and deliver electric energy to TEP's Arizona transmission lines at the Arizona-New Mexico border.

Except as otherwise noted, TEP owns or has a leasehold interest in the following generating stations:

Generating Source	Location	Net Capability MW	Operating Agent	TEP's %	Share MW
San Juan Station #1	Farmington, NM	316	PNM	50.0	158
San Juan Station #2	Farmington, NM	312	PNM	50.0	156
Navajo Station #1	Page, AZ	750	SRP	7.5	56
Navajo Station #2	Page, AZ	750	SRP	7.5	56
Navajo Station #3	Page, AZ	750	SRP	7.5	56
Four Corners Station #4	Farmington, NM	784	APS	7.0	55
Four Corners Station #5	Farmington, NM	784	APS	7.0	55
Irvington Station	Tucson, AZ	422	TEP	100.0	422
Internal Combustion Turbines	Tucson, AZ	218	TEP	100.0	218
Springerville Generating Station #1	Springerville, AZ	380	TEP	100.0	380
Springerville Generating Station #2 [1]	Springerville, AZ	380	TEP	100.0	380
				TOTAL	1,992

The electric generating stations, TEP's general office building, operating headquarters, the warehouse, service center and the electric distribution and electric transmission facilities owned by TEP are located in Arizona, except as otherwise noted. TEP, individually and in conjunction with Public Service Company of New Mexico in connection with the San Juan Station, has acquired easements and leases for transmission lines and a water diversion facility located on the Navajo Indian Reservation. TEP has also acquired easements for transmission facilities, related to the San Juan and Navajo Generating Stations, across the Zuni, Navajo and Tohono O'Odham Indian Reservations.

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[1] Title to Springerville #2 is held by San Carlos.

Various undivided interests in the common facilities at the Irvington Generating Station which serve Unit 4 were sold and are leased back by TEP.

The fifty percent (50%) undivided interest of San Carlos in the common facilities at the Springerville Generating Station were sold by San Carlos and leased back by TEP and San Carlos, jointly and severally. The coal-handling facilities at the Springerville Generating Station were sold and are leased back by TEP. Effective December 15, 1992, TEP assumed the obligation of Century Power Corporation as Lessee under a sale and leaseback of Springerville Unit 1 and an undivided fifty percent (50%) interest in the facilities common to Unit 1 and Unit 2. San Carlos holds title to Unit 2 of the Springerville Generating Station.

3. The following information for the last calendar year with respect to claimant[s] and each of its subsidiary public utility companies:

a. Number of kWh of electric energy sold (at retail or wholesale), and Mcf of natural or manufactured gas distributed at retail.

	Electricity	Gas
UniSource	None	None
TEP	10,899,869,000	None
San Carlos	None	None

b. Number of kWh of electric energy and Mcf of natural or manufactured gas distributed at retail outside the State in which each company is organized.

None.

c. Number of kWh of electric energy and Mcf of natural or manufactured gas sold at wholesale outside the State in which each such company is organized, or at the State line.

	Electricity	Gas
UniSource	None	None
TEP	2,189,832,000	None
San Carlos	None	None

d. Number of kWh of electric energy and Mcf of natural or manufactured gas purchased outside the State in which each such company is organized or at the State line.

	Electricity	Gas
UniSource	None	None
TEP	1,157,025,000	None
San Carlos	None	None

4. The following information for the reporting period with respect to claimant[s] and each interest it holds directly or indirectly in an EWG or a foreign utility company, stating monetary amounts in United States dollars:

a. Name, location, business address and description of the facilities used by the EWG or foreign utility company for the generation, transmission and distribution of electric energy for sale or for the distribution at retail of natural or manufactured gas.

Inapplicable.

b. Name of each system company that holds an interest in such EWG or foreign utility company; and description of the interest held.

Inapplicable.

c. Type and amount of capital invested, directly or indirectly, by the holding company claiming exemption; any direct or indirect guarantee of the security of the EWG

or foreign utility company by the holding company claiming exemption; and any debt or other financial obligation for which there is recourse, directly or indirectly, to the holding company claiming exemption or another system company, other than the EWG or foreign utility company.

Inapplicable.

d. Capitalization and earnings of the EWG or foreign utility company during the reporting period.

Inapplicable.

e. Identify any service, sales or construction contract(s) between the EWG or foreign utility company and a system company, and describe the services to be rendered or goods sold and fees or revenues under such agreement(s).

Inapplicable.

EXHIBIT A

Consolidating statements of income and surplus of the claimants and their subsidiary companies for the last calendar year, together with the consolidating balance sheets of claimants and their subsidiary companies as of the close of such calendar year.

This statement is being filed by TEP to claim exemption in the event that San Carlos Resources Inc. is an "electric utility company" under the Act. However, the filing of this statement is not an acknowledgment by TEP that San Carlos Resources Inc. is an "electric utility company."

The above-named claimants have caused this statement to be duly executed on their behalf by its authorized officer on this 26th day of February, 1998.

UNISOURCE ENERGY CORPORATION

By: Karen G. Kissinger

Karen G. Kissinger
Vice President, Controller and
Principal Accounting Officer

TUCSON ELECTRIC POWER COMPANY

By: Karen G. Kissinger

Karen G. Kissinger
Vice President and Controller

(Corporate Seal)

Attest:

Name, title and address of officer to whom notices and correspondence concerning this statement should be addressed: Dennis R. Nelson, Vice President, General Counsel and Corporate Secretary, UniSource Energy Corporation, 220 West Sixth Street, Tucson, Arizona 85701

EXHIBIT A

Consolidating statements of income and surplus of the claimants and their subsidiary companies for the last calendar year, together with the consolidating balance sheets of claimants and their subsidiary companies as of the close of such calendar year.

This statement is being filed by TEP to claim exemption in the event that San Carlos Resources Inc. is an "electric utility company" under the Act. However, the filing of this statement is not an acknowledgment by TEP that San Carlos Resources Inc. is an "electric utility company."

The above-named claimants have caused this statement to be duly executed on their behalf by its authorized officer on this 26th day of February, 1998.

UNISOURCE ENERGY CORPORATION

By: Karen G. Kissinger
Karen G. Kissinger
Vice President, Controller and
Principal Accounting Officer

TUCSON ELECTRIC POWER COMPANY

By: Karen G. Kissinger
Karen G. Kissinger
Vice President and Controller

(Corporate Seal)

Attest:

_____

Name, title and address of officer to whom notices and correspondence concerning this statement should be addressed: Dennis R. Nelson, Vice President, General Counsel and Corporate Secretary, UniSource Energy Corporation, 220 West Sixth Street, Tucson, Arizona 85701

<TABLE>

UNISOURCE ENERGY CORPORATION ***
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1997
(in thousands)

AMENDMENT 1 - EXHIBIT A

<CAPTION>

	UNISOURCE ENERGY CORP.	TUCSON ELECTRIC POWER CO.	MEH CORP.*	INVESTMENT SUBS **	CONSOL. ADJUST.	1997 CONSOL.
<S>	<C>	<C>	<C>	<C>	<C>	<C>
ASSETS						
Utility Plant						
Plant in Service	$	$ 2,194,150	$	$	$	$2,194,150
Utility Plant Under Capital Leases		893,064				893,064
Construction Work in Progress		72,404				72,404
Total Utility Plant		3,159,618				3,159,618
Less Accumulated Depreciation and Amortization		(982,621)				(982,621)
Less Accumulated Amortization of Capital Leases		(73,728)				(73,728)
Less Springerville Unit 1 Allowance		(167,756)				(167,756)
Total Utility Plant - Net		1,935,513				1,935,513
Investments and Other Property	216,878	123,800	21,098	9,648	(292,652)	78,772
Current Assets						
Cash and Cash Equivalents		96,075	45,412	4,769		146,256
Note Receivable from Subsidiary		3,600			(3,600)	-
Accounts Receivable		76,748	910	5,195	(11,628)	71,225
Materials and Fuel		33,965	40			34,005
Deferred Income Taxes - Current		14,910				14,910
Other		22,469	1,184			23,653
Total Current Assets		247,767	47,546	9,964	(15,228)	290,049
Deferred Debits - Regulatory Assets						
Income Taxes Recoverable Through Future Rates		170,034				170,034
Deferred Common Facility Costs		58,222				58,222

Contract Termination Fee		48,077				48,077
Deferred Springerville Unit 2 Costs		11,590				11,590
Deferred Lease Expense		11,571				11,571
Other Deferred Regulatory Assets		11,089				11,089
Deferred Debits - Other		16,006		3,486		19,492
Total Deferred Debits		326,589		3,486		330,075
Total Assets	$216,878	$2,633,669	$ 68,644	$ 23,098	$ (307,880)	$2,634,409

* MEH Corporation is the parent company of Advanced Energy Technologies, Inc. Millennium Energy Holdings, Inc., Nations Energy Corporation, and Southwest Energy Solutions, Inc.

** Investment Subs include TRI, SRI and Escapade. These subsidiaries are wholly-owned by Tucson Electric Power Company.

*** UniSource's consolidated financial statements presented herein include the financial results of operations of UniSource and its wholly-owned subsidiaries as if the current holding company structure had existed in all periods shown. For the periods presented UniSource's operations and those of TEP are substantially the same.

</TABLE>

<TABLE>

UNISOURCE ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1997
(in thousands)

AMENDMENT 1 - EXHIBIT A

<CAPTION>

	UNISOURCE ENERGY CORP.	TUCSON ELECTRIC POWER CO.	MEH CORP.	INVESTMENT SUBS	CONSOL. ADJUST.	1997 CONSOL.
<S>	<C>	<C>	<C>	<C>	<C>	<C>
CAPITALIZATION AND OTHER LIABILITIES						
Capitalization						
Common Stock	$ 638,904	$ 638,904	$	$ 3	$ (638,907)	$ 638,904
Premium on Capital Stock			78,906	276,731	(355,637)	-
Accumulated Deficit	(422,026)	(429,577)	(8,773)	(271,093)	709,443	(422,026)
Common Stock Equity	216,878	209,327	70,133	5,641	(285,101)	216,878
Capital Lease Obligations		890,257				890,257
Long-Term Debt		1,215,120				1,215,120
Total Capitalization	216,878	2,314,704	70,133	5,641	(285,101)	2,322,255
Current Liabilities						
Note Payable to Parent				3,600	(3,600)	-
Current Obligations Under Capital Leases		14,552				14,552
Current Maturities of Long-Term Debt		500				500
Accounts Payable		40,266	718	5,553	(11,628)	34,909
Interest Accrued		64,812				64,812
Taxes Accrued		24,373	32	(8)		24,397
Contract Termination Fee Payable		10,000				10,000
Other		18,612	264	175		19,051
Total Current Liabilities		173,115	1,014	9,320	(15,228)	168,221
Deferred Credits and Other Liabilities						
Deferred Income Taxes - Noncurrent		79,552	(2,532)		586	77,606
Accumulated Deferred Investment Tax Credits						
Regulatory Liability		11,905				11,905
Other Regulatory Liabilities		17,591				17,591
Other		36,802	29	8,137	(8,137)	36,831

Total Deferred Credits and Other Liabilities		145,850	(2,503)	8,137	(7,551)	143,933
Total Capitalization and Other Liabilities	$216,878	$2,633,669	$ 68,644	$ 23,098	$ (307,880)	$2,634,409

</TABLE>

<TABLE>

UNISOURCE ENERGY CORPORATION AMENDMENT 1 - EXHIBIT A
CONSOLIDATED STATEMENTS OF INCOME
TWELVE MONTHS ENDED DECEMBER 31, 1997
(in thousands except for per share amounts)

<CAPTION>

	UNISOURCE ENERGY CORP.	TUCSON ELECTRIC POWER CO.	MEH CORP.	INVESTMENT SUBS	CONSOL. ADJUST.	1997 CONSOL.
<S>		<C>	<C>	<C>	<C>	<C>
UTILITY OPERATIONS						
Operating Revenues						
Retail Customers	$	$624,361	$	$	$ (140)	$ 624,221
Amortization of MSR Option Gain		8,105				8,105
Regulatory Liability		97,567				97,567
Sales for Resale						
Total Operating Revenues		730,033			(140)	729,893
Operating Expenses						
Fuel and Purchased Power		216,163				216,163
Capital Lease Expense		103,914				103,914
Amortization of Springerville						
Unit 1 Allowance		(28,037)				(28,037)
Other Operations		107,199				107,199
Maintenance and Repairs		36,657				36,657
Depreciation and Amortization		86,405				86,405
Taxes Other Than Income Taxes		51,339				51,339
Voluntary Severance Plan Expense - Net		2,933				2,933
Income Taxes		19,297				19,297
Total Operating Expenses		595,870	-	-	-	595,870
Utility Operating Income		134,163	-	-	(140)	134,023
Other Income (Deductions)						
Income Taxes		38,563	2,838			41,401
Reversal of Loss Provision		-		10,154		10,154
Interest Income		8,023	426	384	(268)	8,565
Other Income (Deductions)		7,053	(8,608)	(1,002)	(3,813)	(6,370)
UNS - Earnings of Subsidiaries	83,572				(83,572)	-
Total Other Income (Deductions)	83,572	53,639	(5,344)	9,536	(87,653)	53,750

Income (Loss) before Interest Expense	83,572	187,802	(5,344)	9,536	(87,793)	187,773
Interest Expense						
Long-Term Debt - Net		63,573				63,573
Interest Imputed on Losses Recorded at Present Value		32,657				32,657
Short-Term Debt		39	47	182	(268)	-
Other Interest Expense		7,961		10		7,971
Total Interest Expense		104,230	47	192	(268)	104,201
Net Income (Loss)	$83,572	$ 83,572	$ (5,391)	$ 9,344	$(87,525)	$ 83,572
Average Shares of Common Stock Outstanding						32,136
Basic Earnings Per Share						2.60
Diluted Earnings Per Share						2.59

</TABLE>

<TABLE>

EXHIBIT A

TUCSON ELECTRIC POWER COMPANY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1997
(in thousands)

<CAPTION>

	TUCSON ELECTRIC POWER CO.	MEH CORP.*	INVESTMENT SUBS **	CONSOL. ADJUST.	1997 CONSOL.
<S>	<C>	<C>	<C>	<C>	<C>
ASSETS					
Utility Plant					
Plant in Service	$ 2,194,150	$	$	$	$2,194,150
Utility Plant Under Capital Leases	893,064				893,064
Construction Work in Progress	72,404				72,404
Total Utility Plant	3,159,618				3,159,618
Less Accumulated Depreciation and Amortization	(982,621)				(982,621)
Less Accumulated Amortization of Capital Leases	(73,728)				(73,728)
Less Springerville Unit 1 Allowance	(167,756)				(167,756)
Total Utility Plant - Net	1,935,513				1,935,513
Investments and Other Property	123,800	21,098	9,648	(75,774)	78,772
Current Assets					
Cash and Cash Equivalents	96,075	45,412	4,769		146,256
Note Receivable from Subsidiary	3,600			(3,600)	-
Accounts Receivable	76,748	910	5,195	(11,628)	71,225
Materials and Fuel	33,965	40			34,005
Deferred Income Taxes - Current	14,910				14,910
Other	22,469	1,184			23,653
Total Current Assets	247,767	47,546	9,964	(15,228)	290,049
Deferred Debits - Regulatory Assets					
Income Taxes Recoverable Through Future Rates	170,034				170,034
Deferred Common Facility Costs	58,222				58,222

Contract Termination Fee	48,077				48,077
Deferred Springerville Unit 2 Costs	11,590				11,590
Deferred Lease Expense	11,571				11,571
Other Deferred Regulatory Assets	11,089				11,089
Deferred Debits - Other	16,006		3,486		19,492
Total Deferred Debits	326,589		3,486		330,075
Total Assets	$2,633,669	$ 68,644	$ 23,098	$ (91,002)	$2,634,409

* MEH Corporation is the parent company of Advanced Energy Technologies, Inc. Millennium Energy Holdings, Inc., Nations Energy Corporation, and Southwest Energy Solutions, Inc.

** Investment Subs include TRI, SRI and Escavada.

</TABLE>

<TABLE>

EXHIBIT A

TUCSON ELECTRIC POWER COMPANY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1997
(in thousands)

<CAPTION>

	TUCSON ELECTRIC POWER CO.	MEH CORP.	INVESTMENT SUBS	CONSOL. ADJUST.	1997 CONSOL.
<S>	<C>	<C>	<C>	<C>	<C>
CAPITALIZATION AND OTHER LIABILITIES					
Capitalization					
Common Stock	$ 645,261	$	$ 3	$ (3)	$ 645,261
Premium on Capital Stock		78,906	276,731	(355,637)	-
Capital Stock Expense	(6,357)				(6,357)
Accumulated Deficit	(429,577)	(8,773)	(271,093)	287,417	(422,026)
Common Stock Equity	209,327	70,133	5,641	(68,223)	216,878
Capital Lease Obligations	890,257				890,257
Long-Term Debt	1,215,120				1,215,120
Total Capitalization	2,314,704	70,133	5,641	(68,223)	2,322,255
Current Liabilities					
Note Payable to Parent			3,600	(3,600)	-
Current Obligations Under Capital Leases	14,552				14,552
Current Maturities of Long-Term Debt	500				500
Accounts Payable	40,266	718	5,553	(11,628)	34,909
Interest Accrued	64,812				64,812
Taxes Accrued	24,373	32	(8)		24,397
Contract Termination Fee Payable	10,000				10,000
Other	18,612	264	175		19,051
Total Current Liabilities	173,115	1,014	9,320	(15,228)	168,221
Deferred Credits and Other Liabilities					
Deferred Income Taxes - Noncurrent	79,552	(2,532)		586	77,606
Accumulated Deferred Investment Tax Credits	11,905				11,905
Regulatory Liability	17,591				17,591
Other Regulatory Liabilities	36,802	29	8,137	(8,137)	36,831
Other					

Total Deferred Credits and Other Liabilities	145,850	(2,503)	8,137	(7,551)	143,933
Total Capitalization and Other Liabilities	$2,633,669	$ 68,644	$ 23,098	$ (91,002)	$2,634,409

</TABLE>

<TABLE>

EXHIBIT A

TUCSON ELECTRIC POWER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
TWELVE MONTHS ENDED DECEMBER 31, 1997
(in thousands except for per share amounts)

<CAPTION>

	TUCSON ELECTRIC POWER CO.	MEH CORP.	INVESTMENT SUBS	CONSOL. ADJUST.	1997 CONSOL.
<S>	<C>	<C>	<C>	<C>	<C>
UTILITY OPERATIONS					
Operating Revenues					
Retail Customers	$624,361	$	$	$ (140)	$ 624,221
Amortization of MSR Option Gain Regulatory Liability	8,105				8,105
Sales for Resale	97,567				97,567
Total Operating Revenues	730,033			(140)	729,893
Operating Expenses					
Fuel and Purchased Power	216,163				216,163
Capital Lease Expense	103,914				103,914
Amortization of Springerville Unit 1 Allowance	(28,037)				(28,037)
Other Operations	107,199				107,199
Maintenance and Repairs	36,657				36,657
Depreciation and Amortization	86,405				86,405
Taxes Other Than Income Taxes	51,339				51,339
Voluntary Severance Plan Expense - Net	2,933				2,933
Income Taxes	19,297				19,297
Total Operating Expenses	595,870	-	-	-	595,870
Utility Operating Income	134,163	-	-	(140)	134,023
Other Income (Deductions)					
Income Taxes	38,563	2,838			41,401
Reversal of Loss Provision	-		10,154		10,154
Interest Income	8,023	426	384	(268)	8,565
Other Income (Deductions)	7,053	(8,608)	(1,002)	(3,813)	(6,370)
Total Other Income (Deductions)	53,639	(5,344)	9,536	(4,081)	53,750

Income (Loss) before Interest Expense	187,802	(5,344)	9,536	(4,221)	187,773
Interest Expense					
Long-Term Debt - Net	63,573				63,573
Interest Imputed on Losses Recorded at Present Value	32,657				32,657
Short-Term Debt	39	47	182	(268)	-
Other Interest Expense	7,961		10		7,971
Total Interest Expense	104,230	47	192	(268)	104,201
Net Income (Loss)	$ 83,572	$ (5,391)	$ 9,344	$ (3,953)	$ 83,572

</TABLE>

UNISOURCE ENERGY CORPORATION
FINANCIAL DATA SCHEDULE
AMENDMENT 1 - EXHIBIT B
DECEMBER 31, 1997
(in thousands)

Total Assets	$2,634,409
Total Operating Revenues	$ 729,893
Net Income	$ 83,572

TUCSON ELECTRIC POWER COMPANY
FINANCIAL DATA SCHEDULE
EXHIBIT B
DECEMBER 31, 1997
(in thousands)

Total Assets	$2,634,409
Total Operating Revenues	$ 729,893
Net Income	$ 83,572

EXHIBIT C

An organizational chart showing the relationship of each EWG or foreign utility company to associate companies in the holding company system.

Not applicable.

3

File No. 69-427

File No. 69-293

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM U-3A-2

Statement by Holding Company Claiming Exemption Under Rule U-3A-2 from the Provisions of the Public Utility Holding Company Act of 1935

To be Filed Annually Prior to March 1

UNISOURCE ENERGY CORPORATION

hereby files with the Securities and Exchange Commission, pursuant to Rule 2, its statement claiming exemption as a holding company, and

TUCSON ELECTRIC POWER COMPANY

hereby files with the Securities and Exchange Commission, pursuant to Rule 2, its statement claiming exemption as a holding company from the provisions of the Public Utility Holding Company Act of 1935, and submits the following information:

1. **Name, State of organization, location and nature of business of claimant[s] and every subsidiary thereof, other than any exempt wholesale generator (EWG) or foreign utility company in which claimant[s] directly or indirectly holds an interest.**

UniSource Energy Corporation ("UniSource Energy") was incorporated under the laws of the State of Arizona and is a holding company organized to acquire and hold the securities of other corporations. On January 1, 1998, UniSource Energy and Tucson Electric Power Company ("TEP") completed a statutory share exchange (the "Share Exchange"), pursuant to which the outstanding common stock of TEP was exchanged, on

a share-for-share basis, for shares of UniSource Energy common stock, no par value. As a result of the Share Exchange, TEP became, and is now, a wholly-owned subsidiary of UniSource Energy.

Following the Share Exchange, UniSource Energy acquired from TEP all of the outstanding stock of Millennium Energy Holdings, Inc. ("Millennium") (previously known as MEH Corporation).

The information contained in this statement is furnished taking into account the Share Exchange and such transfer of the outstanding stock of Millennium.

UniSource Energy controls, directly or indirectly, fifty percent (50%) or more of the "voting securities" of the following subsidiaries:

I. TEP was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of UniSource Energy. TEP was organized as an operating public utility engaged in the generation, purchase, transmission, distribution and sale of electricity to retail customers in the City of Tucson, Arizona, and the surrounding area and to wholesale customers. TEP holds the stock of Escavada Company, San Carlos Resources Inc. ("San Carlos"), Sierrita Resources Inc. ("SRI"), Tucson Resources Inc. ("TRI") and Tucsonel Inc.

A. Escavada Company was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of TEP engaged in the business of maintaining miscellaneous assets and property.

B. San Carlos was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of TEP. San Carlos holds the title to Unit No. 2 of the Springerville Generating Station, a generating facility in commercial operation located in

Apache County, Arizona, and is the lessee, jointly and severally with TEP, of an undivided one-half interest in all facilities and personal property used in common between Unit No. 1 and Unit No. 2 of the Springerville Generating Station. San Carlos is not the operator of Unit No. 2 or any of such common facilities.

C. SRI was incorporated under the laws of the State of Delaware and is a wholly-owned subsidiary of TEP. SRI was formed primarily to invest in financial assets.

1. Santa Cruz Resources Inc. was incorporated under the laws of the State of Delaware and is a wholly-owned subsidiary of SRI. Santa Cruz Resources Inc. holds an investment in a financial service company.

D. TRI was incorporated under the laws of the State of Delaware and is a wholly-owned subsidiary of TEP. TRI was organized primarily to invest in financial assets.

1. Sabino Investing Inc. was incorporated under the laws of the State of Delaware and is a wholly-owned subsidiary of TRI. Sabino Investing Inc. holds certain real estate assets.

E. Tucsonel Inc. was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of TEP. Tucsonel Inc. is presently inactive.

II. Millennium was incorporated under the laws of the State of Arizona and, effective January 1, 1998, became a wholly-owned subsidiary of UniSource Energy. Millennium holds the stock of Advanced Energy Technologies, Inc., MEH Corporation (previously known as Millennium Energy Holdings, Inc.), Nations Energy Corporation and Southwest Energy Solutions, Inc.

A. Advanced Energy Technologies, Inc. was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of Millennium Energy Holdings, Inc.

Advanced Energy Technologies, Inc. was organized to develop certain distributed energy projects, as well as renewable energy sources.

1. Global Solar Energy, L.L.C. was formed under the laws of the State of Arizona and is fifty percent (50%) owned by Advanced Energy Technologies, Inc. Global Solar Energy, L.L.C. was organized for the purpose of engaging in the manufacture and sale of thin film photovoltaic modules for distributed energy applications.

B. MEH Corporation was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of Millennium Energy Holdings, Inc. MEH Corporation was organized to hold TEP's interest in New Energy Ventures, Inc.

1. New Energy Ventures, Inc. was formed under the laws of the State of Arizona and is fifty percent (50%) owned by MEH Corporation. New Energy Ventures, Inc. was organized for the purpose of acting as a buyer's agent in procuring electric energy, performing energy services, engaging in power marketing and trading and other energy-related activities.

a. NEV California, L.L.C. was formed under the laws of the State of Arizona and is a wholly-owned subsidiary of New Energy Ventures, Inc. NEV California, L.L.C. was organized for the purpose of acting as a buyer's agent in procuring electric energy, performing energy services, engaging in power marketing and trading and other energy-related activities.

b. NEV East, L.L.C. was formed under the laws of the State of Arizona and is a wholly-owned subsidiary of New Energy Ventures, Inc. NEV East, L.L.C. was organized for the purpose of acting as a buyer's agent in procuring electric energy,

performing energy services, engaging in power marketing and trading and other energy-related activities.

c. NEV Midwest, L.L.C. was formed under the laws of the State of Arizona and is a wholly-owned subsidiary of New Energy Ventures, Inc. NEV Midwest, L.L.C. was organized for the purpose of acting as a buyer's agent in procuring electric energy, performing energy services, engaging in power marketing and trading and other energy-related activities.

d. NEV Technologies, L.L.C. was formed under the laws of the State of Arizona and is a wholly-owned subsidiary of New Energy Ventures, Inc. NEV Technologies, L.L.C. was organized for the purpose of acting as a buyer's agent in procuring electric energy, performing energy services, engaging in power marketing and trading and other energy-related activities.

(1) NEVTech Americas, L.L.C. was formed under the laws of the State of Arizona and is fifty percent (50%) owned by NEV Technologies, L.L.C. NEVTech Americas, L.L.C. was organized to market energy-related products.

(2) NEVTech Pacifica, L.L.C. was formed under the laws of the State of Arizona and is fifty percent (50%) owned by NEV Technologies, L.L.C. NEVTech Pacifica, L.L.C. was organized to market energy-related products.

e. NEV Texas, L.L.C. was formed under the laws of the State of Arizona is a wholly-owned subsidiary of New Energy Ventures, Inc. NEV Texas, L.L.C. was organized for the purpose of acting as a buyer's agent in procuring electric energy, performing energy services, engaging in power marketing and trading and other energy-related activities.

2. NEV Southwest, L.L.C. was formed under the laws of the State of Arizona and is a wholly-owned subsidiary of MEH Corporation. NEV Southwest, L.L.C. was organized for the purpose of acting as a buyer's agent in procuring electric energy, performing energy services, engaging in power marketing and trading and other energy-related activities.

C. Nations Energy Corporation was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of Millennium Energy Holdings, Inc. Nations Energy Corporation was organized to develop and invest in independent power projects in global energy markets, including QFs, EWGs and FUCOs, located in the United States and abroad.

1. Nations-Colorado Energy Corporation was incorporated under the laws of the State of Delaware and is a wholly-owned subsidiary of Nations Energy Corporation. Nations-Colorado Energy Corporation holds a 1% limited partnership interest in a partnership which in turn owns and operates an electric and thermal energy generating facility serving Coors Brewing Company in Golden, Colorado. The facility is a "qualifying facility" under the Public Utility Regulatory Policies Act of 1978.

2. Nations Energy Holland Holding B.V. was formed under the laws of the Netherlands and is a wholly-owned subsidiary of Nations Energy Corporation. Nations Energy Holland Holding B.V. was organized for the purpose of investing in international independent power projects.

a. Nations Kladno B.V. was formed under the laws of the Netherlands and is 50% owned by Nations Energy Holland Holding B.V. Nations Kladno B.V. was

organized for the purpose of holding an interest in an independent power project in the Czech Republic.

b. Nations Kladno II B.V. was formed under the laws of the Netherlands and is 50% owned by Nations Energy Holland Holding B.V. Nations Kladno II B.V. was organized for the purpose of holding an interest in an independent power project in the Czech Republic.

3. Nations International Ltd. was incorporated under the laws of the Cayman Islands and is a wholly-owned subsidiary of Nations Energy Corporation. Nations International Ltd. was organized for the purpose of investing in international independent power projects.

a. Biomasa Generacion, S. de R.L. de C.V. was formed under the laws of Honduras and is ninety-one percent (91%) owned by Nations International Ltd. Biomasa Generacion, S. de R.L. de C.V. was organized for the purpose of developing and owning biomass-fueled non-utility generating projects in Honduras.

b. Nations BioGen Ltd. was incorporated under the laws of the Cayman Islands and is a wholly-owned subsidiary of Nations International Ltd. Nations BioGen Ltd. was organized for the purpose of investing in international independent power projects.

c. Nations Curacao Ltd. was incorporated under the laws of the Cayman Islands and is a wholly-owned subsidiary of Nations International Ltd. Nations Curacao Ltd. was organized for the purpose of investing in international independent power projects.

d. Suministradora de Materials Organicos, S.R.L. de C.V. was formed under the laws of Honduras and is ninety-one percent (91%) owned by Nations International Ltd. Suministradora de Materials Organicos, S.R.L. de C.V. was organized for the purpose of administering fuel supply to biomass projects in Honduras.

e. Nations Panama Energy Corporation was organized under the laws of the Republic of Panama and is a wholly-owned subsidiary of Nations International, Ltd. Nations Panama Energy Corporation was organized for the purpose of structuring and developing projects for the generation, transmission and commercialization of electric power in all of its forms.

4. Nations ECK, L.L.C. was incorporated under the laws of the State of Delaware and is a wholly-owned subsidiary of Nations Energy Corporation. Nations ECK, L.L.C. was formed for the purpose of being a service company.

D. Southwest Energy Solutions, Inc. was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of Millennium Energy Holdings, Inc. Southwest Energy Solutions, Inc. was organized for the purpose of supplying a variety of ancillary "beyond the meter" energy products and services to retail electric customers.

1. SWPP Investment Company was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of Southwest Energy Solutions, Inc. SWPP Investment Company was organized for the purpose of manufacturing and selling concrete utility products.

a. Sentinel Concrete Utility Poles, L.L.C. was formed under the laws of the State of Arizona and is fifty percent (50%) owned by SWPP Investment Company.

Sentinel Concrete Utility Poles, L.L.C. was organized for the purpose of marketing and distributing concrete utility poles and products.

b. SWPP International Ltd. was incorporated under the laws of the Cayman Islands and is a wholly-owned subsidiary of SWPP Investment Company. SWPP International Ltd. was organized to invest in a Mexican joint venture(s) related to the manufacturing and selling of concrete utility poles.

(1) Productos de Concreto Internacionales, S. de R.L. de C.V. was formed under the laws of Mexico and is fifty percent (50%) owned by SWPP International Ltd. Productos de Concreto Internacionales, S. de R.L. de C.V. was organized for the purpose of manufacturing and selling concrete utility poles and products.

UniSource Energy controls, directly or indirectly, less than ten percent (10%) of the "voting securities" of the following companies: None.

2. **A brief description of the properties of claimant[s] and each of its subsidiary public utility companies used for the generation, transmission and distribution of electric energy for sale, or for the production, transmission and distribution of natural or manufactured gas, indicating the location of principal generating plants, transmission lines, producing fields, gas manufacturing plants, and electric and gas distribution facilities, including all such properties which are outside the State in which claimant[s] and its subsidiaries are organized and all transmission or pipelines which deliver or receive electric energy or gas at the borders of such State.**

UniSource Energy does not directly own any property used for the generation, transmission and distribution of electric energy for sale, or for the production, transmission and distribution of natural or manufactured gas.

As of December 31, 1998, TEP owned or participated in an overhead electric transmission and distribution system consisting of 511 circuit-miles of 500 kV lines, 1,122 circuit-miles of 345 kV lines, 350 circuit-miles of 138 kV lines, 440 circuit-miles of 46 kV lines and 9,643 circuit-miles of lower voltage primary lines. The underground electric distribution system is comprised of 5,071 cable miles. Approximately twenty-four percent (24%) of the poles upon which the lower voltage lines are located are not owned by TEP. Electric substation capacity associated with the above-described electric system consisted of 173 substations with a total installed transformer capacity of 5,329,605 kVA. The above facilities are all located in Arizona except for certain transmission lines consisting of 560 circuit-miles of 345 kV in which TEP has a fractional undivided interest and which are located in the State of New Mexico and deliver electric energy to TEP's Arizona transmission lines at the Arizona-New Mexico border.

Except as otherwise noted, at December 31, 1998 TEP owns or has a leasehold interest in the following generating stations:

Generating Source	Location	Net Capability MW	Operating Agent	TEP's %	Share MW
San Juan Station #1	Farmington, NM	316	PNM	50.0	158
San Juan Station #2	Farmington, NM	312	PNM	50.0	156
Navajo Station #1	Page, AZ	750	SRP	7.5	56
Navajo Station #2	Page, AZ	750	SRP	7.5	56
Navajo Station #3	Page, AZ	750	SRP	7.5	56
Four Corners Station #4	Farmington, NM	784	APS	7.0	55
Four Corners Station #5	Farmington, NM	784	APS	7.0	55
Irvington Station	Tucson, AZ	422	TEP	100.0	422
Internal Combustion Turbines	Tucson, AZ	122	TEP	100.0	122
Springerville Generating Station #1	Springerville, AZ	380	TEP	100.0	380
Springerville Generating Station #2 [1]	Springerville, AZ	380	TEP	100.0	380
				TOTAL	1,896

The electric generating stations, TEP's general office building, operating headquarters, the warehouse, service center and the electric distribution and electric transmission facilities owned by TEP are located in Arizona, except as otherwise noted. TEP, individually and in conjunction with Public Service Company of New Mexico in connection with the San Juan Station, has acquired easements and leases for transmission lines and a water diversion facility located on the Navajo Indian Reservation. TEP has also acquired easements for transmission facilities, related to the San Juan and Navajo Generating Stations, across the Zuni, Navajo and Tohono O'Odham Indian Reservations.

[1] Title to Springerville #2 is held by San Carlos.

Various undivided interests in the common facilities at the Irvington Generating Station which serve Unit 4 were sold and are leased back by TEP.

The fifty percent (50%) undivided interest of San Carlos in the common facilities at the Springerville Generating Station were sold by San Carlos and leased back by TEP and San Carlos, jointly and severally. The coal-handling facilities at the Springerville Generating Station were sold and are leased back by TEP. TEP leases Springerville Unit 1, the fuel handling facilities for Springerville, and an undivided fifty percent (50%) interest in the facilities common to Unit 1 and Unit 2 through sale/leaseback arrangements. San Carlos holds title to Unit 2 of the Springerville Generating Station.

3. The following information for the last calendar year with respect to claimant[s] and each of its subsidiary public utility companies:

a. Number of kWh of electric energy sold (at retail or wholesale), and Mcf of natural or manufactured gas distributed at retail.

	Electricity	Gas
UniSource Energy	None	None
TEP	12,140,421,000	None
San Carlos	None	None

b. Number of kWh of electric energy and Mcf of natural or manufactured gas distributed at retail outside the State in which each company is organized.

None.

c. Number of kWh of electric energy and Mcf of natural or manufactured gas sold at wholesale outside the State in which each such company is organized, or at the State line.

	Electricity	Gas
UniSource Energy	None	None
TEP	3,547,689,000	None
San Carlos	None	None

d. Number of kWh of electric energy and Mcf of natural or manufactured gas purchased outside the State in which each such company is organized or at the State line.

	Electricity	Gas
UniSource Energy	None	None
TEP	2,259,020,000	None
San Carlos	None	None

4. The following information for the reporting period with respect to claimant[s] and each interest it holds directly or indirectly in an EWG or a foreign utility company, stating monetary amounts in United States dollars:

a. Name, location, business address and description of the facilities used by the EWG or foreign utility company for the generation, transmission and distribution of electric energy for sale or for the distribution at retail of natural or manufactured gas.

Nations Energy Corporation, an Arizona corporation ("Nations Energy"), acting on behalf of ECK Generating, s.r.o., a limited liability company organized under the laws of the Czech Republic ("ECKG"), hereby notifies the Commission, pursuant to Section 33(a) of the Act and Rule 57 thereunder, that ECKG is a foreign utility company within the meaning of Section 33(a) of the Act.

Name and Business Address:
ECK Generating, s.r.o.
272 03 Kladno
Dubska-Teplarna
Czech Republic

Description of Facilities:

ECKG will lease (or purchase) and operate facilities in Kladno, Czech Republic, which are used for the generation and associated transmission and distribution of electric energy for sale (the "Existing Facilities"). The Existing Facilities, which ECKG will lease (or purchase) from Energeticke Centrum Kladno, s.r.o., provide 54 MW of electrical generating capacity and consist of eight coal-fired boilers, two condensing extraction steam turbine-generator units, plus heating steam and process steam extraction; an associated transformer and switch gears; and facilities used to effect retail sales, including a transformer, switch gears, and cabling. ECKG is also developing an improvement project (the "Improvement Project") that will increase the net electric capacity of the Existing Facilities to approximately 344 MW by developing a 246 MW coal-fired steam generating plant and a 70 MW gas-fired combustion turbine, plus associated transformers and switchgear (the "Expansion Facilities"). The Expansion Facilities will also include two stub transmission lines connecting the power station to two different substations. One transmission line is approximately one kilometer from the power station; the other is a few kilometers away. In addition, the Expansion Facilities may include another transmission line connecting the power station to a third substation in Prague, approximately 23 kilometers away. Finally, as part of the Improvement Project, 26 MW of steam generation capacity is expected to be retired from the Existing Facilities.

b. Name of each system company that holds an interest in such EWG or foreign utility company; and description of the interest held.

The ownership of ECKG is as follows:

(1) Matra Powerplant Holdings B.V. ("Matra") holds an 89% equity interest in ECKG. Nations Kladno B.V. holds a 30% equity interest in Matra and is a wholly-owned subsidiary of Nations Energy Holland Holding B.V., which is a wholly-owned subsidiary of Nations Energy. Nations Energy is a wholly-owned subsidiary of Millennium, a intermediary holding company for the unregulated business of UniSource Energy which is subject to retail rate regulation by the Arizona Corporation Commission. Nations Energy is primarily engaged in developing independent power projects.

(2) Kladno Power (No. 2) B.V., a wholly-owned subsidiary of NRG Energy, Inc., a Delaware corporation ("NRG"), holds a 50% equity interest in Matra. NRG is an indirect, wholly-owned subsidiary of Northern States Power Company (Minnesota) ("NSP"), an electric utility company which is subject to retail rate regulation by the Minnesota Public Utilities Commission, the North Dakota Public Service Commission, and the South Dakota Public Utilities Commission and whose wholly-owned subsidiary, Northern States Power Company (Wisconsin) ("NSPW"), is also an electric utility company subject to retail rate regulation by the Wisconsin Public Service Commission and the Michigan Public Service Commission.

(3) El Paso Kladno, B.V., a wholly-owned subsidiary of El Paso Electric International Company, a Delaware corporation, holds a 20% equity interest in Matra.

(4) Stredoceska Energeticke, a.s., a Czech joint-stock company, which is one of the eight Czech Republic government-owned regional electricity distribution companies and

which operates in the Central Bohemia region of the Czech Republic, holds an 11% equity interest in ECKG.

c. Type and amount of capital invested, directly or indirectly, by the holding company claiming exemption; any direct or indirect guarantee of the security of the EWG or foreign utility company by the holding company claiming exemption; and any debt or other financial obligation for which there is recourse, directly or indirectly, to the holding company claiming exemption or another system company, other than the EWG or foreign utility company.

No portion of the purchase price for ECKG was paid by UniSource Energy or TEP.

d. Capitalization and earnings of the EWG or foreign utility company during the reporting period.

The ECKG Project was capitalized at $401 million. No earnings were reported since the Project is under construction.

e. Identify any service, sales or construction contract(s) between the EWG or foreign utility company and a system company, and describe the services to be rendered or goods sold and fees or revenues under such agreement(s).

Inapplicable.

EXHIBIT A

Consolidating statements of income of the claimants and their subsidiary companies for the last calendar year, together with the consolidating balance sheets of claimants and their subsidiary companies as of the close of such calendar year.

This statement is being filed by TEP to claim exemption in the event that San Carlos Resources Inc. is an "electric utility company" under the Act. However, the filing of this statement is not an acknowledgment by TEP that San Carlos Resources Inc. is an "electric utility company."

The above-named claimants have caused this statement to be duly executed on their behalf by its authorized officer on this 25th day of February, 1999.

UNISOURCE ENERGY CORPORATION

By: Karen G. Kissinger

Karen G. Kissinger
Vice President, Controller and
Principal Accounting Officer

TUCSON ELECTRIC POWER COMPANY

By: Karen G. Kissinger

Karen G. Kissinger
Vice President, Controller and Chief
Information Officer

(Corporate Seal)

Attest:

_____

Name, title and address of officer to whom notices and correspondence concerning this statement should be addressed: Dennis R. Nelson, Vice President, General Counsel and Corporate Secretary, UniSource Energy Corporation, 220 West Sixth Street, Tucson, Arizona 85701

<TABLE>

EXHIBIT A

UNISOURCE ENERGY CORPORATION
CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 1998
(in thousands)

<CAPTION>

	UNISOURCE ENERGY CORP.	TUCSON ELECTRIC POWER CO.*	MILLENNIUM ENERGY HOLDINGS**	CONSOL. ADJUST.	1998 CONSOL.
<S>	<C>	<C>	<C>	<C>	<C>
ASSETS					
Utility Plant					
Plant in Service	$	$ 2,263,871	$	$	$ 2,263,871
Utility Plant Under Capital Leases		886,902			886,902
Construction Work in Progress		74,050			74,050
Total Utility Plant		3,224,823			3,224,823
Less Accumulated Depreciation and Amortization		(1,051,994)			(1,051,994)
Less Accumulated Amortization of Capital Leases		(85,826)			(85,826)
Less Springerville Unit 1 Allowance		(171,413)			(171,413)
Total Utility Plant - Net		1,915,590			1,915,590
Investments and Other Property	332,131	62,978	47,340	(332,131)	110,318
Note Receivable from UniSource Energy		79,462		(79,462)	-
Current Assets					
Cash and Cash Equivalents	15,070	118,236	11,861		145,167
Accounts Receivable	4,226	72,239	4,683	(8,381)	72,767
Materials and Fuel		36,995	45		37,040
Deferred Income Taxes - Current		14,820			14,820
Other		14,735	10,215		24,950
Total Current Assets	19,296	257,025	26,804	(8,381)	294,744
Deferred Debits - Regulatory Assets					
Income Taxes Recoverable Through Future Rates		152,111			152,111

Deferred Springerville Generation Costs		102,211			102,211
Deferred Lease Expense		9,877			9,877
Other Regulatory Assets		18,886			18,886
Deferred Debits - Other		30,443			30,443
Total Deferred Debits		313,528			313,528
Total Assets	$ 351,427	$ 2,628,583	$ 74,144	$ (419,974)	$ 2,634,180

* Tucson Electric Power Company holds the stock of Escavada Company; San Carlos Resources Inc.; Sierrita Resources Inc.; Tucson Resources Inc.; and Tucsonel Inc. See 1.I. for information regarding subsidiaries held by Sierrita Resources Inc. and Tucson Resources Inc.

** Millennium Energy Holdings, Inc. is the parent company of Advanced Energy Technologies, Inc.; MEH Corporation; Nations Energy Corporation; and Southwest Energy Solutions, Inc.

- Advanced Energy Technologies, Inc. owns 50% of Global Solar Energy, L.L.C.
- MEH Corporation owns 50% of New Energy Ventures, Inc. See 1.II.B.1. for information regarding subsidiaries held by New Energy Ventures, Inc.
- Nations Energy Corporation holds the stock of Nations Energy Holland Holding B.V., Nations Colorado Energy Corporation, and Nations International Ltd. See 1.II.C. for information regarding the subsidiaries held by Nations Energy Corporation's subsidiaries.
- Southwest Energy Solutions, Inc. owns SWPP Investment Company. See 1.II.D.1. for information regarding the subsidiaries held by SWPP Investment Company.

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EXHIBIT A

UNISOURCE ENERGY CORPORATION
CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 1998
(in thousands)

<CAPTION>

	UNISOURCE ENERGY CORP.	TUCSON ELECTRIC POWER CO.	MILLENNIUM ENERGY HOLDINGS	CONSOL. ADJUST.	1998 CONSOL.
<S>	<C>	<C>	<C>	<C>	<C>
CAPITALIZATION AND OTHER LIABILITIES					
Capitalization					
Common Stock	$ 640,640	$ 640,211	$	$ (640,211)	$ 640,640
Additional Paid-In Capital			94,148	(94,148)	-
Accumulated Deficit	(393,994)	(410,350)	(17,139)	427,489	(393,994)
Common Stock Equity	246,646	229,861	77,009	(306,870)	246,646
Capital Lease Obligations		889,543			889,543
Long-Term Debt	104,723	1,184,423		(104,723)	1,184,423
Total Capitalization	351,369	2,303,827	77,009	(411,593)	2,320,612
Current Liabilities					
Current Obligations Under Capital Leases		11,647			11,647
Current Maturities of Long-Term Debt		1,725			1,725
Accounts Payable	2,414	37,256	2,756	(8,308)	34,118
Interest Accrued		70,771			70,771
Taxes Accrued		27,082	85		27,167
Accrued Employee Expenses		14,897	310		15,207
Other		6,705			6,705
Total Current Liabilities	2,414	170,083	3,151	(8,308)	167,340
Deferred Credits and Other Liabilities					
Deferred Income Taxes - Noncurrent	(2,356)	70,504	(6,120)		62,028
Deferred Investment Tax Credits Regulatory Liability		10,436			10,436
Emission Allowance Gain Regulatory Liability		31,335			31,335
Other		42,398	104	(73)	42,429
Total Deferred Credits and Other Liabilities	(2,356)	154,673	(6,016)	(73)	146,228

Total Capitalization and Other Liabilities	$ 351,427	$ 2,628,583	$ 74,144	$ (419,974)	$ 2,634,180

</TABLE>

<TABLE>

UNISOURCE ENERGY CORPORATION
CONSOLIDATING STATEMENTS OF INCOME
TWELVE MONTHS ENDED DECEMBER 31, 1998
(in thousands except for per share amounts)

EXHIBIT A

<CAPTION>

	UNISOURCE ENERGY CORP.	TUCSON ELECTRIC POWER CO.	MILLENNIUM ENERGY HOLDINGS	CONSOL. ADJUST.	1998 CONSOL.
<S>		<C>	<C>	<C>	<C>
Operating Revenues					
Retail Customers	$	$ 625,721	$	$ (314)	$ 625,407
Sales for Resale		143,269			143,269
Total Operating Revenues	-	768,990	-	(314)	768,676
Operating Expenses					
Fuel and Purchased Power		255,527			255,527
Capital Lease Expense		104,045			104,045
Amortization of Springerville Unit 1 Allowance		(30,522)			(30,522)
Other Operations		109,170			109,170
Maintenance and Repairs		36,143			36,143
Depreciation and Amortization		90,358			90,358
Taxes Other Than Income Taxes		50,395			50,395
Income Taxes		18,372			18,372
Total Operating Expenses	-	633,488	-	-	633,488
Operating Income	-	135,502	-	(314)	135,188
Other Income (Deductions)					
Income Taxes	3,743	794			4,537
Interest Income	66	10,800			10,866
Interest Income - Note Receivable from UniSource Energy		9,329		(9,329)	-
Unregulated Energy Businesses - Net			(8,123)	14	(8,109)
Other Income (Deductions)	33,552	2,851		(33,253)	3,150
Total Other Income (Deductions)	37,361	23,774	(8,123)	(42,568)	10,444
Interest Expense					

Long-Term Debt	9,329	72,672		(9,329)	72,672
Interest Imputed on Losses Recorded at Present Value		34,179			34,179
Other Interest Expense		10,749			10,749
Total Interest Expense	9,329	117,600	-	(9,329)	117,600
Net Income (Loss)	$ 28,032	$ 41,676	$ (8,123)	$ (33,553)	$ 28,032
Average Shares of Common Stock Outstanding					32,178
Basic and Diluted Earnings per Share					$ 0.87

</TABLE>

UNISOURCE ENERGY CORPORATION
FINANCIAL DATA SCHEDULE
EXHIBIT B
DECEMBER 31, 1998
(in thousands)

Total Assets	$ 2,634,180
Total Operating Revenues	$ 768,676
Net Income	$ 28,032

<TABLE>

EXHIBIT A

TUCSON ELECTRIC POWER COMPANY
CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 1998
(in thousands)

<CAPTION>

	TUCSON ELECTRIC POWER CO.	INVESTMENT SUBS *	CONSOL. ADJUST.	1998 CONSOL.
<S>	<C>	<C>	<C>	<C>
ASSETS				
Utility Plant				
Plant in Service	$ 2,263,871	$	$	$ 2,263,871
Utility Plant Under Capital Leases	886,902			886,902
Construction Work in Progress	74,050			74,050
Total Utility Plant	3,224,823			3,224,823
Less Accumulated Depreciation and Amortization	(1,051,994)			(1,051,994)
Less Accumulated Amortization of Capital Leases	(85,826)			(85,826)
Less Springerville Unit 1 Allowance	(171,413)			(171,413)
Total Utility Plant - Net	1,915,590			1,915,590
Investments and Other Property	61,271	6,211	(4,504)	62,978
Note Receivable from UniSource Energy	79,462			79,462
Current Assets				
Cash and Cash Equivalents	116,490	1,746		118,236
Accounts Receivable	76,357	5,456	(9,574)	72,239
Materials and Fuel	36,995			36,995
Deferred Income Taxes - Current	14,820			14,820
Other	14,735			14,735
Total Current Assets	259,397	7,202	(9,574)	257,025
Deferred Debits - Regulatory Assets				
Income Taxes Recoverable Through Future Rates	152,111			152,111

Deferred Springerville Generation Costs	102,211			102,211
Deferred Lease Expense	9,877			9,877
Other Regulatory Assets	18,886			18,886
Deferred Debits - Other	27,109	3,334		30,443
Total Deferred Debits	310,194	3,334		313,528
Total Assets	$ 2,625,914	$ 16,747	$ (14,078)	$ 2,628,583

* Tucson Electric Power Company holds the stock of Escavada Company; San Carlos Resources Inc.; Sierrita Resources Inc.; Tucson Resources Inc.; and Tucsonel Inc. See 1.I. for information regarding subsidiaries held by Sierrita Resources Inc. and Tucson Resources Inc.

</TABLE>

<TABLE>

EXHIBIT A

TUCSON ELECTRIC POWER COMPANY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1998
(in thousands)

<CAPTION>

	TUCSON ELECTRIC POWER CO.	INVESTMENT SUBS *	CONSOL. ADJUST.	1998 CONSOL.
<S>	<C>	<C>	<C>	<C>
CAPITALIZATION AND OTHER LIABILITIES				
Capitalization				
Common Stock	$ 646,568	$ 3	$ (3)	$ 646,568
Premium on Capital Stock		265,967	(265,967)	-
Capital Stock Expense	(6,357)			(6,357)
Accumulated Deficit	(417,901)	(261,466)	269,017	(410,350)
Common Stock Equity	222,310	4,504	3,047	229,861
Capital Lease Obligations	889,543			889,543
Long-Term Debt	1,184,423			1,184,423
Total Capitalization	2,296,276	4,504	3,047	2,303,827
Current Liabilities				
Note Payable to Parent	-	3,600	(3,600)	-
Current Obligations Under Capital Leases	11,647			11,647
Current Maturities of Long-Term Debt	1,725			1,725
Accounts Payable	42,716	514	(5,974)	37,256
Interest Accrued	70,771			70,771
Taxes Accrued	27,090	(8)		27,082
Accrued Employee Expenses	14,897			14,897
Other	6,705			6,705
Total Current Liabilities	175,551	4,106	(9,574)	170,083
Deferred Credits and Other Liabilities				
Deferred Income Taxes - Noncurrent	69,918		586	70,504
Deferred Investment Tax Credits	10,436			10,436
Regulatory Liability	31,335			31,335
Emission Allowance Gain Regulatory Liability	42,398	8,137	(8,137)	42,398
Other				

Total Deferred Credits and Other Liabilities	154,087	8,137	(7,551)	154,673
Total Capitalization and Other Liabilities	$ 2,625,914	$ 16,747	$ (14,078)	$ 2,628,583

</TABLE>

<TABLE>

EXHIBIT A

TUCSON ELECTRIC POWER COMPANY
CONSOLIDATING STATEMENTS OF INCOME
TWELVE MONTHS ENDED DECEMBER 31, 1998
(in thousands)

<CAPTION>

	TUCSON ELECTRIC POWER CO.	INVESTMENT SUBS	CONSOL. ADJUST.	1998 CONSOL.
<S>	<C>	<C>	<C>	<C>
Operating Revenues				
Retail Customers	$ 625,728	$	$ (7)	$ 625,721
Sales for Resale	143,269			143,269
Total Operating Revenues	768,997		(7)	768,990
Operating Expenses				
Fuel and Purchased Power	255,527			255,527
Capital Lease Expense	104,045			104,045
Amortization of Springerville Unit 1 Allowance	(30,522)			(30,522)
Other Operations	109,170			109,170
Maintenance and Repairs	36,143			36,143
Depreciation and Amortization	90,358			90,358
Taxes Other Than Income Taxes	50,395			50,395
Income Taxes	18,372			18,372
Total Operating Expenses	633,488	-	-	633,488
Operating Income	135,509	-	(7)	135,502
Other Income (Deductions)				
Income Taxes	795	(1)		794
Interest Income	10,763	37		10,800
Interest Income - Note Receivable from UniSource Energy	9,329			9,329
Other Income (Deductions)	2,934	1,530	(1,613)	2,851
Total Other Income (Deductions)	23,821	1,566	(1,613)	23,774
Interest Expense				
Long-Term Debt	72,672			72,672

Interest Imputed on Losses Recorded at Present Value	34,179			34,179
Short-Term Debt	54	189	(243)	-
Other Interest Expense	10,749			10,749
Total Interest Expense	117,654	189	(243)	117,600
Net Income	$ 41,676	$ 1,377	$ (1,377)	$ 41,676

</TABLE>

TUCSON ELECTRIC POWER COMPANY
FINANCIAL DATA SCHEDULE
EXHIBIT B
DECEMBER 31, 1998
(in thousands)

Total Assets	$ 2,628,583
Total Operating Revenues	$ 768,990
Net Income	$ 41,676

EXHIBIT C

An organizational chart showing the relationship of each EWG or foreign utility company to associate companies in the holding company system.

Not applicable.

4

File No. 69-427

File No. 69-293

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM U-3A-2

Statement by Holding Company Claiming Exemption Under Rule U-3A-2 from the Provisions of the Public Utility Holding Company Act of 1935

To be Filed Annually Prior to March 1

UNISOURCE ENERGY CORPORATION

hereby files with the Securities and Exchange Commission, pursuant to Rule 2, its statement claiming exemption as a holding company, and

TUCSON ELECTRIC POWER COMPANY

hereby files with the Securities and Exchange Commission, pursuant to Rule 2, its statement claiming exemption as a holding company from the provisions of the Public Utility Holding Company Act of 1935, and submits the following information:

1. Name, State of organization, location and nature of business of claimant[s] and every subsidiary thereof, other than any exempt wholesale generator (EWG) or foreign utility company in which claimant[s] directly or indirectly holds an interest.

UniSource Energy Corporation ("UniSource Energy") was incorporated under the laws of the State of Arizona and is a holding company organized to acquire and hold the securities of other corporations.

UniSource Energy controls, directly or indirectly, 50% or more of the "voting securities" of the following subsidiaries:

I. Tucson Electric Power Company ("TEP") was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of UniSource Energy. TEP was organized as an operating public utility engaged in the generation, purchase, transmission, distribution and sale of electricity to retail customers in the City of Tucson, Arizona, and the surrounding area and to wholesale customers. TEP holds the stock of Escavada Company, San Carlos Resources Inc. ("San Carlos"), Sierrita Resources Inc. ("SRI"), Tucson Resources Inc. ("TRI") and Tucsonel Inc.

A. Escavada Company was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of TEP engaged in the business of maintaining miscellaneous assets and property.

B. San Carlos was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of TEP. San Carlos holds the title to Unit No. 2 of the Springerville Generating Station, a generating facility in commercial operation located in Apache County, Arizona, and is the lessee, jointly and severally with TEP, of an undivided one-half interest in all facilities and personal property used in common between Unit No. 1 and Unit No. 2 of the Springerville Generating Station. San Carlos is not the operator of Unit No. 2 or any of such common facilities.

C. SRI was incorporated under the laws of the State of Delaware and is a wholly-owned subsidiary of TEP. SRI was formed primarily to invest in financial assets.

1. Santa Cruz Resources Inc. was incorporated under the laws of the State of Delaware and is a wholly-owned subsidiary of SRI. Santa Cruz Resources Inc. holds an investment in a financial service company.

D. TRI was incorporated under the laws of the State of Delaware and is a wholly-owned subsidiary of TEP. TRI was organized primarily to invest in financial assets.

1. Sabino Investing Inc. was incorporated under the laws of the State of Delaware and is a wholly-owned subsidiary of TRI. Sabino Investing Inc. holds certain real estate assets.

E. Tucsonel Inc. was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of TEP. Tucsonel Inc. is presently inactive.

II. Millennium Energy Holdings, Inc. ("Millennium") was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of UniSource Energy. Millennium holds the stock of Advanced Energy Technologies, Inc. ("AET"), MEH Corporation ("MEH"), Nations Energy Corporation ("Nations") and Southwest Energy Solutions, Inc. ("SES").

A. AET was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of Millennium. AET was organized to develop certain distributed energy projects, as well as renewable energy sources.

1. Global Solar Energy, L.L.C. ("Global Solar") as formed under the laws of the State of Arizona and is 50% owned by AET. Global Solar was organized for the purpose of engaging in the manufacture and sale of thin film photovoltaic modules for distributed energy applications. In November 1999, Millennium and ITN Energy

Systems, Inc. ("ITN") entered into an agreement in which AET made a firm commitment to acquire an additional 17% of Global Solar from ITN.

B. MEH was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of Millennium. MEH was organized to hold an interest in NewEnergy, Inc, (previously known as New Energy Ventures, Inc.). On July 23, 1999, MEH sold all of its interest in NewEnergy, Inc. to a third party.

C. Nations was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of Millennium. Nations was organized to develop and invest in independent power projects in global energy markets, including QFs, EWGs and FUCOs, located in the United States and abroad.

1. Nations-Colorado Energy Corporation ("Nations-Colorado") was incorporated under the laws of the State of Delaware and is a wholly-owned subsidiary of Nations. Nations-Colorado held a 1% limited partnership interest in a partnership, which owned and operated an electric and thermal energy generating facility serving Coors Brewing Company in Golden, Colorado; however, this limited partnership interest was divested in June 1999. The facility was a "qualifying facility" under the Public Utility Regulatory Policies Act of 1978.

2. Nations Energy-Chalmette, LLC was formed under the laws of the State of Delaware and is a wholly-owned subsidiary of Nations. Nations Energy-Chalmette, LLC was formed to own and operate an electric and thermal energy generating facility serving the Mobil Chalmette Oil Refinery in Chalmette, Louisiana. The facility is to be a "qualifying facility" under the Public Utility Regulatory Policies Act of 1978.

3. Nations Energy Holland Holding B.V. ("Nations Energy Holland") was formed under the laws of the Netherlands and during 1999 was 89% owned by Nations and 11% owned by Nations ECK, L.L.C. Nations Energy Holland was organized for the purpose of investing in international independent power projects. On January 25, 2000, all of the stock of Nations Energy Holland was sold to an affiliate of TM Power Ventures, L.L.C.

a. Nations Kladno B.V. was formed under the laws of the Netherlands and during 1999 was 50% owned by Nations Energy Holland. Nations Kladno B.V. was organized for the purpose of holding an interest in an independent power project in the Czech Republic. On January 25, 2000, all of Nations Energy Holland's interest in Nations Kladno B.V. was sold to an affiliate of TM Power Ventures, L.L.C.

b. Nations Kladno II B.V. was formed under the laws of the Netherlands and during 1999 was 50% owned by Nations Energy Holland. Nations Kladno II B.V. was organized for the purpose of holding an interest in an independent power project in the Czech Republic. On January 25, 2000, all of Nations' interest in Nations Kladno II B.V. was effectively transferred to an affiliate of TM Power Ventures, L.L.C. by virtue of the sale of Nation Energy Holland shares referred to in paragraph (3) above.

4. Nations International Ltd. was incorporated under the laws of the Cayman Islands and is a wholly-owned subsidiary of Nations. Nations International Ltd. was organized for the purpose of investing in international independent power projects.

Nations International Ltd. owns a 40% interest in Corporacion Panamena de Energia S.A., a Panama company, ("COPESA"), which owns a power project located in Panama.

a. Biomasa Generacion, S. de R.L. de C.V. was formed under the laws of Honduras and is 91% owned by Nations International Ltd. Biomasa Generacion, S. de R.L. de C.V. was organized for the purpose of developing and owning biomass-fueled non-utility generating projects in Honduras.

b. Nations BioGen Ltd. was incorporated under the laws of the Cayman Islands and is a wholly-owned subsidiary of Nations International Ltd. Nations BioGen Ltd. was organized for the purpose of investing in international independent power projects.

c. Nations Curacao Ltd. was incorporated under the laws of the Cayman Islands and is a wholly-owned subsidiary of Nations International Ltd. Nations Curacao Ltd. was organized for the purpose of investing in international independent power projects.

d. Nation Curacao Operating Ltd. was incorporated under the laws of the Cayman Islands and is a wholly-owned subsidiary of Nations International Ltd. Nations Curacao Operating Ltd. was organized for the purpose of operating or contracting with others to operate the independent power project(s) being developed and owned by Nations International Ltd. or subsidiaries thereof.

e. Suministradora de Materials Organicos, S.R.L. de C.V. was formed under the laws of Honduras and is 91% owned by Nations International Ltd. Suministradora de Materials Organicos, S.R.L. de C.V. was organized for the purpose of administering fuel supply to biomass projects in Honduras.

f. Nations Panama Energy Corporation was organized under the laws of the Republic of Panama and is a wholly-owned subsidiary of Nations International, Ltd. Nations Panama Energy Corporation was organized for the purpose of structuring and developing projects for the generation, transmission and commercialization of electric power in all of its forms.

5. Nations ECK, L.L.C. was incorporated under the laws of the State of Delaware and during 1999, was a wholly-owned subsidiary of Nations and owned 11% of Nations Energy Holland. Nations ECK, L.L.C. was formed for the purpose of being a service company. In January 2000, Nations ECK, L.L.C. was merged into Nations.

D. SES was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of Millennium. SES was organized for the purpose of supplying a variety of ancillary "beyond the meter" energy products and services to retail electric customers.

1. SWPP Investment Company was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of SES. SWPP Investment Company was organized for the purpose of manufacturing and selling concrete utility products.

a. Sentinel Concrete Utility Poles, L.L.C. was formed under the laws of the State of Arizona and is 50% owned by SWPP Investment Company. Sentinel Concrete Utility Poles, L.L.C. was organized for the purpose of marketing and distributing concrete utility poles and products.

b. SWPP International Ltd. was incorporated under the laws of the Cayman Islands and is a wholly-owned subsidiary of SWPP Investment Company.

SWPP International Ltd. was organized to invest in a Mexican joint venture(s) related to the manufacturing and selling of concrete utility poles.

(1) Productos de Concreto Internacionales, S. de R.L. de C.V. was formed under the laws of Mexico and is 50% owned by SWPP International Ltd. Productos de Concreto Internacionales, S. de R.L. de C.V. was organized for the purpose of manufacturing and selling concrete utility poles and products.

UniSource Energy controls, directly or indirectly, less than 10% of the "voting securities" of the following companies: None.

2. A brief description of the properties of claimant[s] and each of its subsidiary public utility companies used for the generation, transmission and distribution of electric energy for sale, or for the production, transmission and distribution of natural or manufactured gas, indicating the location of principal generating plants, transmission lines, producing fields, gas manufacturing plants, and electric and gas distribution facilities, including all such properties which are outside the State in which claimant[s] and its subsidiaries are organized and all transmission or pipelines which deliver or receive electric energy or gas at the borders of such State.

UniSource Energy does not directly own any property used for the generation, transmission and distribution of electric energy for sale, or for the production, transmission and distribution of natural or manufactured gas.

As of December 31, 1999, TEP owned or participated in an overhead electric transmission and distribution system consisting of 511 circuit-miles of 500 kV lines, 1,122 circuit-miles of 345 kV lines, 363 circuit-miles of 138 kV lines, 435 circuit-miles of 46 kV lines and 10,466 circuit-miles of lower voltage primary lines. The underground

electric distribution system is comprised of 5,593 cable miles. Approximately 23% of the poles upon which the lower voltage lines are located are not owned by TEP. Electric substation capacity associated with the above-described electric system consisted of 179 substations with a total installed transformer capacity of 5,433,105 kVA. The above facilities are all located in Arizona except for certain transmission lines consisting of 560 circuit-miles of 345 kV in which TEP has a fractional undivided interest and which are located in the State of New Mexico and deliver electric energy to TEP's Arizona transmission lines at the Arizona-New Mexico border.

Except as otherwise noted, at December 31, 1999 TEP owns or has a leasehold interest in the following generating stations:

Generating Source	Location	Net Capability MW	Operating Agent	TEP's %	Share MW
San Juan Station #1	Farmington, NM	327	PNM	50.0	163
San Juan Station #2	Farmington, NM	316	PNM	50.0	158
Navajo Station #1	Page, AZ	750	SRP	7.5	56
Navajo Station #2	Page, AZ	750	SRP	7.5	56
Navajo Station #3	Page, AZ	750	SRP	7.5	56
Four Corners Station #4	Farmington, NM	784	APS	7.0	55
Four Corners Station #5	Farmington, NM	784	APS	7.0	55
Irvington Station	Tucson, AZ	422	TEP	100.0	422
Internal Combustion Turbines	Tucson, AZ	122	TEP	100.0	122
Springerville Generating Station #1	Springerville, AZ	380	TEP	100.0	380
Springerville Generating Station #2[1]	Springerville, AZ	380	TEP	100.0	380
				TOTAL	1,903

[1] Title to Springerville #2 is held by San Carlos.

The electric generating stations, TEP's general office building, operating headquarters, the warehouse, service center and the electric distribution and electric transmission facilities owned by TEP are located in Arizona, except as otherwise noted. TEP, individually and in conjunction with Public Service Company of New Mexico in connection with the San Juan Station, has acquired easements and leases for transmission lines and a water diversion facility located on the Navajo Indian Reservation. TEP has also acquired easements for transmission facilities, related to the San Juan and Navajo Generating Stations, across the Zuni, Navajo and Tohono O'Odham Indian Reservations.

Various undivided interests in the common facilities at the Irvington Generating Station which serve Unit 4 were sold and are leased back by TEP.

The 50% undivided interest of San Carlos in the common facilities at the Springerville Generating Station were sold by San Carlos and leased back by TEP and San Carlos, jointly and severally. The coal-handling facilities at the Springerville Generating Station were sold and are leased back by TEP. TEP leases Springerville Unit 1, the fuel handling facilities for Springerville, and an undivided 50% interest in the facilities common to Unit 1 and Unit 2 through sale/leaseback arrangements. San Carlos holds title to Unit 2 of the Springerville Generating Station.

3. The following information for the last calendar year with respect to claimant[s] and each of its subsidiary public utility companies:

a. Number of kWh of electric energy sold (at retail or wholesale), and Mcf of natural or manufactured gas distributed at retail.

	Electricity	Gas
UniSource Energy	None	None
TEP	13,013,303,000	None
San Carlos	None	None

b. Number of kWh of electric energy and Mcf of natural or manufactured gas distributed at retail outside the State in which each company is organized.

None.

c. Number of kWh of electric energy and Mcf of natural or manufactured gas sold at wholesale outside the State in which each such company is organized, or at the State line.

	Electricity	Gas
UniSource Energy	None	None
TEP	3,138,823,000	None
San Carlos	None	None

d. Number of kWh of electric energy and Mcf of natural or manufactured gas purchased outside the State in which each such company is organized or at the State line.

	Electricity	Gas
UniSource Energy	None	None
TEP	2,254,628,000	None
San Carlos	None	None

4. The following information for the reporting period with respect to claimant[s] and each interest it holds directly or indirectly in an EWG or a foreign utility company, stating monetary amounts in United States dollars:

a. Name, location, business address and description of the facilities used by the EWG or foreign utility company for the generation, transmission and distribution of electric energy for sale or for the distribution at retail of natural or manufactured gas.

Nations, an Arizona corporation, acting on behalf of ECK Generating, s.r.o., a limited liability company organized under the laws of the Czech Republic ("ECKG"), Energeticke Centrum Kladno, s.r.o. ("ECK"), and Corporacion Panamena de Energia S.A., a Panama company ("COPESA") hereby notifies the Commission, pursuant to Section 33(a) of the Act and Rule 57 thereunder, that during the reporting period each of ECKG, ECK and COPESA was a foreign utility company within the meaning of Section 33(a) of the Act.

The name and business address for ECKG, ECK and COPESA are as follows:

ECK Generating, s.r.o. and ECK 272 03 Kladno Dubska-Teplarna Czech Republic	COPESA Avenida Federico Boyd E.D.F. Scotia Plaza PISO VI Panama City, Panama

Listed below is a description of the ECKG/ECK and COPESA facilities:

A. ECKG will lease (or purchase) and operate facilities in Kladno, Czech Republic, which are used for the generation and associated transmission and distribution of electric energy for sale (the "Existing Facilities"). The Existing Facilities, which ECKG will lease (or purchase) from ECK, provide 54 MW of electrical generating capacity and consist of eight coal-fired boilers, two condensing extraction steam turbine-

generator units, plus heating steam and process steam extraction; an associated transformer and switch gears; and facilities used to effect retail sales, including a transformer, switch gears, and cabling. ECKG is also developing an improvement project (the "Improvement Project") that will increase the net electric capacity of the Existing Facilities to approximately 344 MW by developing a 246 MW coal-fired steam generating plant and a 70 MW gas-fired combustion turbine, plus associated transformers and switchgear (the "Expansion Facilities"). The Expansion Facilities will also include two stub transmission lines connecting the power station to two different substations. One transmission line is approximately one kilometer from the power station; the other is a few kilometers away. In addition, the Expansion Facilities may include another transmission line connecting the power station to a third substation in Prague, approximately 23 kilometers away. Finally, as part of the Improvement Project, 26 MW of steam generation capacity is expected to be retired from the Existing Facilities.

Nations sold all of its interest in ECKG and associated facilities to affiliates of TM Power Ventures, L.L.C. on January 25, 2000. Accordingly, as of January 25, 2000, Nations no longer holds an interest in any of the companies related to such project.

B. COPESA owns an approximately 42 MW diesel-fired combustion turbine facility located in Panama City, Panama. The project sells electricity to NORESTE, a distribution company formed in a recent privatization of utility assets in Panama.

b. Name of each system company that holds an interest in such EWG or foreign utility company; and description of the interest held.

The ownership of ECKG is as follows:

A. Matra Powerplant Holdings B.V. ("Matra") holds an 89% equity interest in ECKG. Stredoceska Energeticke, a.s., a Czech joint-stock company, which is one of the eight Czech Republic government-owned regional electricity distribution companies and which operates in the Central Bohemia region of the Czech Republic, holds the remaining 11% equity interest in ECKG.

B. Nations Kladno B.V. holds a 30% equity interest in Matra and during 1999, was a 50% owned subsidiary of Nations Energy Holland, which, during 1999, was a wholly-owned subsidiary, directly and indirectly, of Nations Energy. The remaining 50% interest in Nations Kladno B.V. was held by TM Kladno B.V., an affiliate of the TM Power Ventures, L.L.C. (the "TM Group"). On January 25, 2000, all of the shares of Nations Kladno B.V. and Nations Energy Holland held by Nations were sold to affiliates of the TM Group.

C. Nations is a wholly-owned subsidiary of Millennium, an intermediary holding company for the unregulated business of UniSource Energy, whose electric utility subsidiary is subject to retail rate regulation by the Arizona Corporation Commission. Nations is primarily engaged in developing independent power projects.

D. Kladno Power (No. 2) B.V., a wholly-owned subsidiary of NRG Energy, Inc., a Delaware corporation ("NRG"), holds a 50% equity interest in Matra. NRG is an indirect, wholly-owned subsidiary of Northern States Power Company (Minnesota) ("NSP"), an electric utility company which is subject to retail rate regulation by the Minnesota Public Utilities Commission, the North Dakota Public Service Commission, and the South Dakota Public Utilities Commission and whose wholly-owned subsidiary, Northern States Power Company (Wisconsin) ("NSPW"), is also an electric utility

company subject to retail rate regulation by the Wisconsin Public Service Commission and the Michigan Public Service Commission.

E. El Paso Kladno, B.V., a wholly-owned subsidiary of El Paso Electric International Company, a Delaware corporation, holds a 20% equity interest in Matra.

The ownership of ECK is as follows:

A. Nations Kladno II B.V. holds a 26.7% interest in ECK, which owns certain existing energy and coal facilities that are leased to ECKG as part of the ECKG Project. On January 25, 2000, all of Nations Energy's interest in Nations Kladno II B.V. was effectively transferred to an affiliate of the TM Group by virtue of the sale of NEHH shares referred to above.

B. The remaining 73.3% interests in ECK are held by affiliates of Kladno Power (No. 2) B.V. and El Paso Kladno, B.V.

The ownership of COPESA is as follows:

A. Nations Energy International Ltd., a wholly-owned subsidiary of Nations, holds a 40% equity interest in COPESA.

B. Electric Machinery Enterprises, a Florida company, holds a 21.5% equity interest in COPESA.

C. Proquim, a Panama company, owns a 21.5% equity interest in COPESA.

D. Roberto Roy, a Panamanian resident, holds a 15.3% equity interest in COPESA.

E. The remaining 1.7% equity interest in COPESA is held by certain Panamanian individuals.

c. Type and amount of capital invested, directly or indirectly, by the holding company claiming exemption; any direct or indirect guarantee of the security of the EWG or foreign utility company by the holding company claiming exemption; and any debt or other financial obligation for which there is recourse, directly or indirectly, to the holding company claiming exemption or another system company, other than the EWG or foreign utility company.

During 1999, approximately $1.9 million was invested in ECKG by Nations subsidiaries and characterized as debt, and $446,000 was invested in ECK as equity. Project debt with respect to ECKG is non-recourse to Nations, its subsidiaries and affiliates, including the holding company.

During 1999, $192,200 was invested by Nations Energy International Ltd. as additional equity in COPESA. Project debt in COPESA is non-recourse.

d. Capitalization and earnings of the EWG or foreign utility company during the reporting period.

The ECKG Project was capitalized at approximately $401 million. ECK was capitalized separately at approximately $16 million. During 1999, ECKG reported a net loss of approximately $16.3 million, and ECK recorded a net loss of approximately $322,000. The ECKG project itself was still under construction during the reporting period.

The COPESA Project was capitalized at approximately $32 million. During 1999, COPESA reported a net loss of approximately $900,000.

e. Identify any service, sales or construction contract(s) between the EWG or foreign utility company and a system company, and describe the services to be rendered or goods sold and fees or revenues under such agreement(s).

Inapplicable.

EXHIBIT A

Consolidating statements of income of the claimants and their subsidiary companies for the last calendar year, together with the consolidating balance sheets of claimants and their subsidiary companies as of the close of such calendar year.

This statement is being filed by TEP to claim exemption in the event that San Carlos Resources Inc. is an "electric utility company" under the Act. However, the filing of this statement is not an acknowledgment by TEP that San Carlos Resources Inc. is an "electric utility company."

The above-named claimants have caused this statement to be duly executed on their behalf by its authorized officer on this 29th day of February, 2000.

UNISOURCE ENERGY CORPORATION

By: Karen G. Kissinger

Karen G. Kissinger
Vice President, Controller and
Principal Accounting Officer

TUCSON ELECTRIC POWER COMPANY

By: Karen G. Kissinger

Karen G. Kissinger
Vice President, Controller and Chief
Information Officer

(Corporate Seal)

Attest:

Name, title and address of officer to whom notices and correspondence concerning this statement should be addressed: Dennis R. Nelson, Vice President, General Counsel and Corporate Secretary, UniSource Energy Corporation, 220 West Sixth Street, Tucson, Arizona 85701

<TABLE>

EXHIBIT A

UNISOURCE ENERGY CORPORATION
CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 1999
(in thousands)

<CAPTION>

	UNISOURCE ENERGY CORP.	TUCSON ELECTRIC POWER CO.*	MILLENNIUM ENERGY HOLDINGS**	CONSOL. ADJUST.	1999 CONSOL.
<S>	<C>	<C>	<C>	<C>	<C>
ASSETS					
Utility Plant					
Plant in Service	$	$ 2,301,645	$	$	$ 2,301,645
Utility Plant Under Capital Leases		741,446			741,446
Construction Work in Progress		96,565			96,565
Total Utility Plant		3,139,656			3,139,656
Less Accumulated Depreciation and Amortization		(1,105,371)			(1,105,371)
Less Accumulated Depreciation of Capital Lease Assets		(304,429)			(304,429)
Total Utility Plant - Net		1,729,856			1,729,856
Investments and Other Property	379,797	67,838	46,645	(379,797)	114,483
Note Receivable from UniSource Energy		70,132		(70,132)	-
Current Assets					
Cash and Cash Equivalents	52,622	88,402	4,264	-	145,288
Accounts Receivable	15,534	70,739	27,812	(46,159)	67,926
Materials and Fuel	-	42,035	84	-	42,119
Deferred Income Taxes - Current	-	17,190	(42)	-	17,148
Prepaid Pension Costs	-	15,818	-	-	15,818
Tax Settlement Deposit	-	13,471	-	-	13,471
Other	3,593	6,249	21,526	-	31,368
Total Current Assets	71,749	253,904	53,644	(46,159)	333,138
Deferred Debits - Regulatory Assets					
Transition Costs Regulatory Asset		370,291			370,291

Income Taxes Recoverable Through Future Revenues		79,497			79,497
Other Regulatory Assets		8,639			8,639
Deferred Debits - Other		20,351			20,351
Total Deferred Debits		478,778			478,778
Total Assets	$ 451,546	$ 2,600,508	$ 100,289	$ (496,088)	$ 2,656,255

* Tucson Electric Power Company holds the stock of Escavada Company; San Carlos Resources Inc.; Sierrita Resources Inc.; Tucson Resources Inc.; and Tucsonel Inc. See 1.I. for information regarding subsidiaries held by Sierrita Resources Inc. and Tucson Resources Inc.

** Millennium Energy Holdings, Inc. is the parent company of Advanced Energy Technologies, Inc.; MEH Corporation; Nations Energy Corporation; and Southwest Energy Solutions, Inc.

- Advanced Energy Technologies, Inc. owns 50% of Global Solar Energy, L.L.C.
- MEH Corporation
- Nations Energy Corporation holds the stock of Nations Energy Holland Holding B.V., Nations-Colorado Energy Corporation, Nations Energy-Chalmette, L.L.C., Nations ECK, L.L.C. and Nations International Ltd. See 1.II.C. for information regarding the subsidiaries held by Nations Energy Corporation's subsidiaries.
- Southwest Energy Solutions, Inc. owns SWPP Investment Company. See 1.II.D.1. for information regarding the subsidiaries held by SWPP Investment Company.

</TABLE>

<TABLE>

EXHIBIT A

UNISOURCE ENERGY CORPORATION
CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 1999
(in thousands)

<CAPTION>

	UNISOURCE ENERGY CORP.	TUCSON ELECTRIC POWER CO.	MILLENNIUM ENERGY HOLDINGS	CONSOL. ADJUST.	1999 CONSOL.
<S>	<C>	<C>	<C>	<C>	<C>
CAPITALIZATION AND OTHER LIABILITIES					
Capitalization					
Common Stock	$ 641,723	$ 641,009	$ -	$ (641,009)	$ 641,723
Additional Paid-In Capital	-	-	90,600	(90,600)	-
Accumulated Deficit	(317,475)	(370,875)	(6,198)	377,073	(317,475)
Common Stock Equity	324,248	270,134	84,402	(354,536)	324,248
Capital Lease Obligations	-	880,111	316	-	880,427
Long-Term Debt	95,393	1,135,820	-	(95,393)	1,135,820
Total Capitalization	419,641	2,286,065	84,718	(449,929)	2,340,495
Current Liabilities					
Current Obligations Under Capital Leases	-	36,263	72		36,335
Current Maturities of Long-Term Debt	-	48,603	-		48,603
Accounts Payable	28,006	41,277	9,185	(46,078)	32,390
Interest Accrued	-	66,311	-		66,311
Taxes Accrued	743	27,738	2,893		31,374
Accrued Employee Expenses	-	10,591	191		10,782
Other	2,588	6,285	61		8,934
Total Current Liabilities	31,337	237,068	12,402	(46,078)	234,729
Deferred Credits and Other Liabilities					
Deferred Income Taxes - Noncurrent	568	38,913	3,045	-	42,526
Other	-	38,462	124	(81)	38,505
Total Deferred Credits and Other Liabilities	568	77,375	3,169	(81)	81,031
Total Capitalization and Other Liabilities	$ 451,546	$ 2,600,508	$ 100,289	$ (496,088)	$ 2,656,255

<TABLE>

EXHIBIT A

UNISOURCE ENERGY CORPORATION
CONSOLIDATING STATEMENTS OF INCOME
TWELVE MONTHS ENDED DECEMBER 31, 1999
(in thousands except for per share amounts)

<CAPTION>

	UNISOURCE ENERGY CORP.	TUCSON ELECTRIC POWER CO.	MILLENNIUM ENERGY HOLDINGS	CONSOL. ADJUST.	1999 CONSOL.
<S>		<C>	<C>	<C>	<C>
Operating Revenues					
Retail Customers	$	$ 632,864	$	$ (271)	$ 632,593
Sales for Resale		171,219			171,219
Total Operating Revenues	-	804,083	-	(271)	803,812
Operating Expenses					
Fuel and Purchased Power		286,349			286,349
Capital Lease Expense		85,320			85,320
Amortization of Springerville Unit 1 Allowance		(29,098)			(29,098)
Other Operations		105,966			105,966
Maintenance and Repairs		36,949			36,949
Depreciation and Amortization		92,583			92,583
Amortization of Transition Costs Regulatory Asset		2,241			2,241
Taxes Other Than Income Taxes		47,789			47,789
Income Taxes		18,268			18,268
Total Operating Expenses	-	646,367	-	-	646,367
Operating Income	-	157,716	-	(271)	157,445
Other Income (Deductions)					
Income Taxes	3,592	(4,082)	(12,434)	-	(12,924)
Interest Income	921	7,935	-	-	8,856
Interest Income - Note Receivable from UniSource Energy	-	9,937	-	(9,937)	-
Gain on the Sale of NewEnergy	-	-	34,651	-	34,651
Unregulated Energy Businesses	-	-	(11,276)	-	(11,276)
Other Income (Deductions)	84,531	2,602	-	(84,145)	2,988
Total Other Income (Deductions)	89,044	16,392	10,941	(94,082)	22,295

Interest Expense					
Long-Term Debt	9,937	66,836		(9,937)	66,836
Interest on Capital Leases		16,241			16,241
Interest Imputed on Losses Recorded at Present Value		29,159			29,159
Other Interest Expense		10,994			10,994
Total Interest Expense	9,937	123,230	-	(9,937)	123,230
Income Before Extraordinary Item	79,107	50,878	10,941	(84,416)	56,510
Extraordinary Item - Net of Tax	-	22,597	-	-	22,597
Net Income	$ 79,107	$ 73,475	$ 10,941	$ (84,416)	$ 79,107
Average Shares of Common Stock Outstanding					32,321
Basic EPS					
Income Before Extraordinary Item					$1.75
Extraordinary Item ▒ Net of Tax					$0.70
Net Income					$2.45
Diluted EPS					
Income Before Extraordinary Item					$1.74
Extraordinary Item ▒ Net of Tax					$0.69
Net Income					$2.43

</TABLE>

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EXHIBIT A

TUCSON ELECTRIC POWER COMPANY
CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 1999
(in thousands)

<CAPTION>

	TUCSON ELECTRIC POWER CO.	INVESTMENT SUBS *	CONSOL. ADJUST.	1999 CONSOL.
<S>	<C>	<C>	<C>	<C>
ASSETS				
Utility Plant				
Plant in Service	$ 2,301,645	$	$	$ 2,301,645
Utility Plant Under Capital Leases	741,446			741,446
Construction Work in Progress	96,565			96,565
Total Utility Plant	3,139,656			3,139,656
Less Accumulated Depreciation and Amortization	(1,105,371)			(1,105,371)
Less Accumulated Depreciation of Capital Lease Assets	(304,429)			(304,429)
Total Utility Plant - Net	1,729,856			1,729,856
Investments and Other Property	65,886	5,204	(3,252)	67,838
Note Receivable from UniSource Energy	70,132			70,132
Current Assets				
Cash and Cash Equivalents	86,982	1,420		88,402
Accounts Receivable	74,623	5,856	(9,740)	70,739
Materials and Fuel	42,035			42,035
Deferred Income Taxes - Current	17,190			17,190
Prepaid Pension Costs	15,818			15,818
Tax Settlement Deposit	13,471			13,471
Other	6,243	6		6,249
Total Current Assets	256,362	7,282	(9,740)	253,904
Deferred Debits - Regulatory Assets				
Transition Costs Regulatory Asset	370,291			370,291

Income Taxes Recoverable Through Future Revenues	79,497			79,497
Other Regulatory Assets	8,639			8,639
Deferred Debits - Other	17,017	3,334		20,351
Total Deferred Debits	475,444	3,334		478,778
Total Assets	$ 2,597,680	$ 15,820	$ (12,992)	$ 2,600,508

* Tucson Electric Power Company holds the stock of Escavada Company; San Carlos Resources Inc.; Sierrita Resources Inc.; Tucson Resources Inc.; and Tucsonel Inc. See 1.I. for information regarding subsidiaries held by Sierrita Resources Inc. and Tucson Resources Inc.

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<TABLE>

EXHIBIT A

TUCSON ELECTRIC POWER COMPANY
CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 1999
(in thousands)

<CAPTION>

	TUCSON ELECTRIC POWER CO.	INVESTMENT SUBS	CONSOL. ADJUST.	1999 CONSOL.
<S>	<C>	<C>	<C>	<C>
CAPITALIZATION AND OTHER LIABILITIES				
Capitalization				
Common Stock	$ 647,366	$ 2	$ (2)	$ 647,366
Premium on Capital Stock		263,778	(263,778)	-
Capital Stock Expense	(6,357)			(6,357)
Accumulated Deficit	(378,426)	(260,528)	268,079	(370,875)
Common Stock Equity	262,583	3,252	4,299	270,134
Capital Lease Obligations	880,111			880,111
Long-Term Debt	1,135,820			1,135,820
Total Capitalization	2,278,514	3,252	4,299	2,286,065
Current Liabilities				
Note Payable to Parent	-	3,600	(3,600)	-
Current Obligations Under Capital Leases	36,263			36,263
Current Maturities of Long-Term Debt	48,603			48,603
Accounts Payable	46,851	566	(6,140)	41,277
Interest Accrued	66,311			66,311
Taxes Accrued	27,614	124		27,738
Accrued Employee Expenses	10,591			10,591
Other	6,185	100		6,285
Total Current Liabilities	242,418	4,390	(9,740)	237,068
Deferred Credits and Other Liabilities				
Deferred Income Taxes - Noncurrent	38,286	41	586	38,913
Other	38,462	8,137	(8,137)	38,462
Total Deferred Credits and Other Liabilities	76,748	8,178	(7,551)	77,375

Total Capitalization and Other Liabilities	$ 2,597,680	$ 15,820	$ (12,992)	$ 2,600,508

</TABLE>

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EXHIBIT A

TUCSON ELECTRIC POWER COMPANY
CONSOLIDATING STATEMENTS OF INCOME
TWELVE MONTHS ENDED DECEMBER 31, 1999
(in thousands)

<CAPTION>

	TUCSON ELECTRIC POWER CO.	INVESTMENT SUBS	CONSOL. ADJUST.	1999 CONSOL.
<S>	<C>	<C>	<C>	<C>
Operating Revenues				
Retail Customers	$ 632,868	$ -	$ (4)	$ 632,864
Sales for Resale	171,219	-	-	171,219
Total Operating Revenues	804,087	-	(4)	804,083
Operating Expenses				
Fuel and Purchased Power	286,349			286,349
Capital Lease Expense	85,320			85,320
Amortization of Springerville Unit 1 Allowance	(29,098)			(29,098)
Other Operations	105,966			105,966
Maintenance and Repairs	36,949			36,949
Depreciation and Amortization	92,583			92,583
Amortization of Transition Costs Regulatory Asset	2,241			2,241
Taxes Other Than Income Taxes	47,789			47,789
Income Taxes	18,268			18,268
Total Operating Expenses	646,367	-	-	646,367
Operating Income	157,720	-	(4)	157,716
Other Income (Deductions)				
Income Taxes	(4,012)	(70)	-	(4,082)
Interest Income	7,886	49	-	7,935
Interest Income - Note Receivable from UniSource Energy	9,937	-	-	9,937
Other Income (Deductions)	2,644	1,165	(1,207)	2,602
Total Other Income (Deductions)	16,455	1,144	(1,207)	16,392
Interest Expense				

Long-Term Debt	66,836	-	-	66,836
Interest on Capital Leases	16,241	-	-	16,241
Interest Imputed on Losses Recorded at Present Value	29,159	-	-	29,159
Short-Term Debt	67	207	(274)	-
Other Interest Expense	10,994	-	-	10,994
Total Interest Expense	123,297	207	(274)	123,230
Income Before Extraordinary Item	50,878	937	(937)	50,878
Extraordinary Item - Net of Tax	22,597	-	-	22,597
Net Income	$ 73,475	$ 937	$ (937)	$ 73,475

</TABLE>

UNISOURCE ENERGY CORPORATION
FINANCIAL DATA SCHEDULE
EXHIBIT B
DECEMBER 31, 1999
(in thousands)

Total Assets	$ 2,656,255
Total Operating Revenues	$ 803,812
Net Income	$ 79,107

TUCSON ELECTRIC POWER COMPANY
FINANCIAL DATA SCHEDULE
EXHIBIT B
DECEMBER 31, 1999
(in thousands)

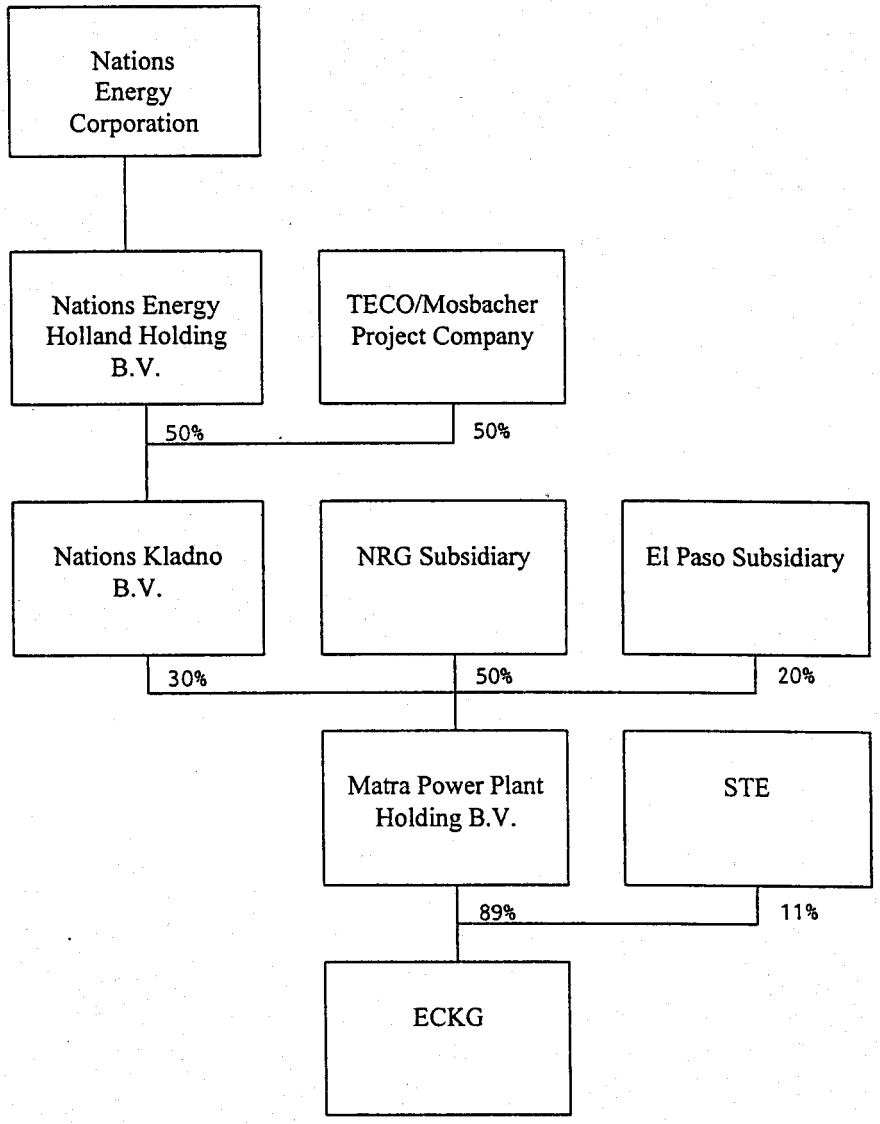
Total Assets	$ 2,600,508
Total Operating Revenues	$ 804,083
Net Income	$ 73,475

EXHIBIT C

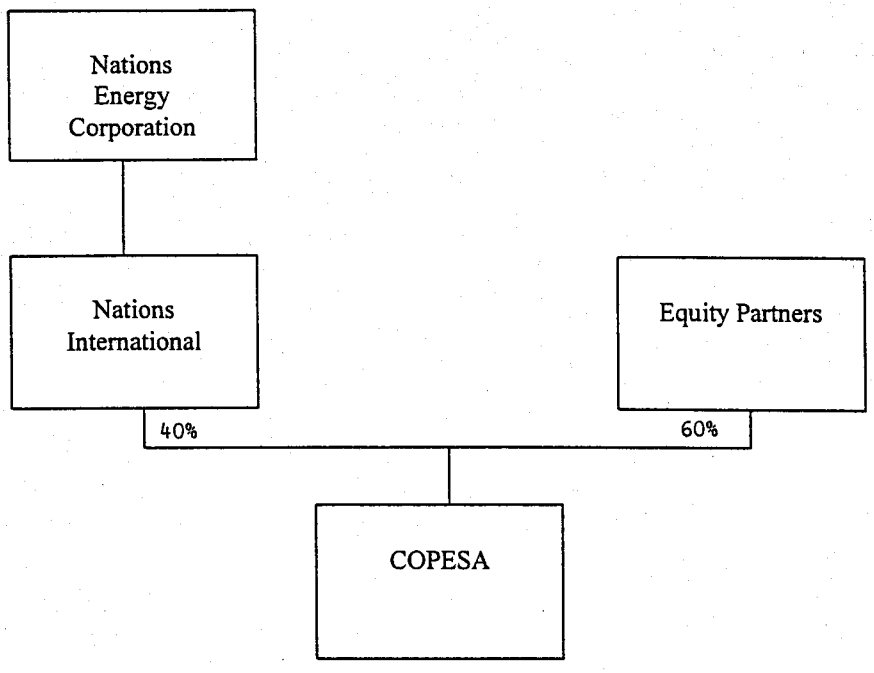
An organizational chart showing the relationship of each EWG or foreign utility company to associate companies in the holding company system.

See attached organizational charts for ECKG, ECK and COPESA.

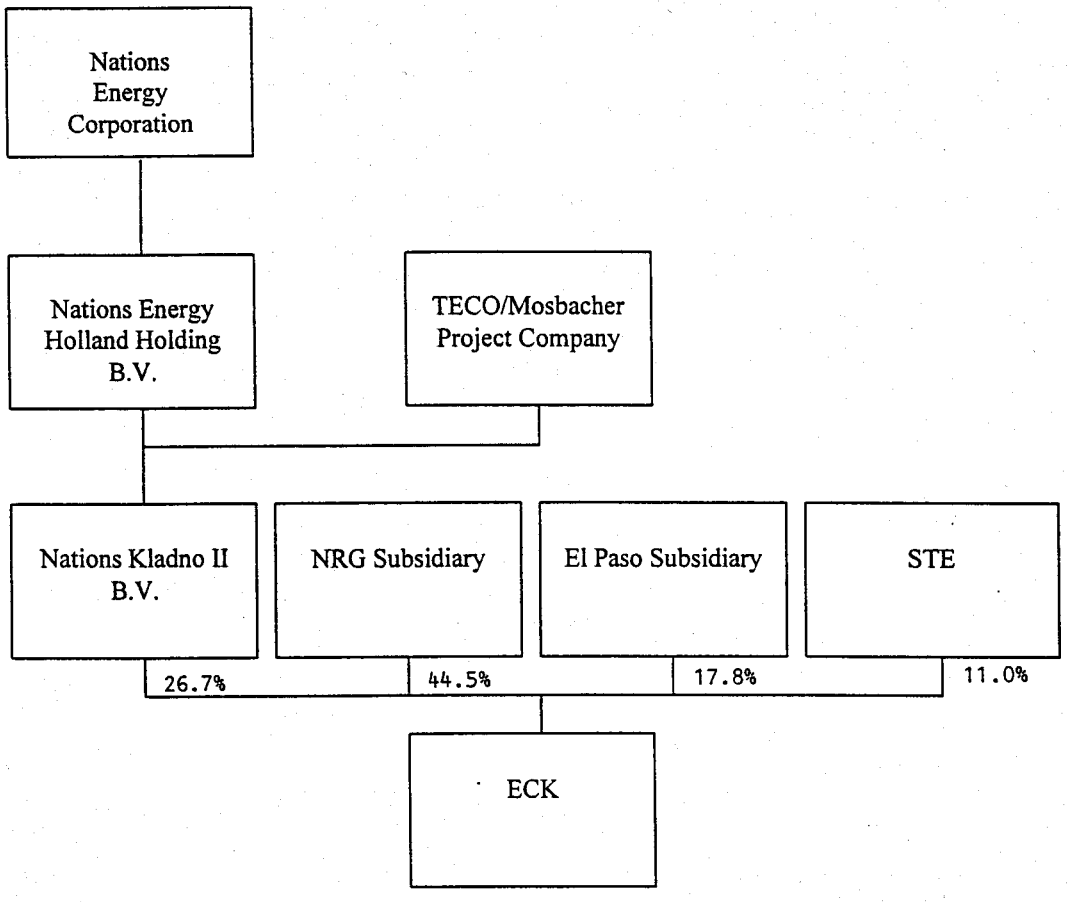
ECKG PROJECT OWNERSHIP STRUCTURE



COPESA PROJECT OWNERSHIP STRUCTURE



ECK PROJECT OWNERSHIP STRUCTURE



5

File No. 69-427

File No. 69-293

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM U-3A-2

Statement by Holding Company Claiming Exemption Under Rule U-3A-2 from the Provisions of the Public Utility Holding Company Act of 1935

To be Filed Annually Prior to March 1

UNISOURCE ENERGY CORPORATION

hereby files with the Securities and Exchange Commission, pursuant to Rule 2, its statement claiming exemption as a holding company, and

TUCSON ELECTRIC POWER COMPANY

hereby files with the Securities and Exchange Commission, pursuant to Rule 2, its statement claiming exemption as a holding company from the provisions of the Public Utility Holding Company Act of 1935, and submits the following information:

1. Name, State of organization, location and nature of business of claimant[s] and every subsidiary thereof, other than any exempt wholesale generator (EWG) or foreign utility company in which claimant[s] directly or indirectly holds an interest.

UniSource Energy Corporation ("UniSource Energy") was incorporated under the laws of the State of Arizona and is a holding company organized to acquire and hold the securities of other corporations.

UniSource Energy controls, directly or indirectly, 10% or more of the "voting securities" of the following subsidiaries:

I. Tucson Electric Power Company ("TEP") was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of UniSource Energy. TEP was organized as an operating public utility engaged in the generation, purchase, transmission, distribution and sale of electricity to retail customers in the City of Tucson, Arizona, and the surrounding area and to wholesale customers. TEP holds the stock of Escavada Company, San Carlos Resources Inc. ("San Carlos"), Sierrita Resources Inc. ("SRI"), Tucson Resources Inc. ("TRI") and Tucsonel Inc., and holds a portion of the stock of Inncom, Inc. and TruePricing, Inc.

A. Escavada Company was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of TEP. Escavada Company was formed to engage in the business of maintaining miscellaneous assets and property.

B. San Carlos was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of TEP. San Carlos holds the title to Unit No. 2 of the Springerville Generating Station, a generating facility in commercial operation located in Apache County, Arizona, and is the lessee, jointly and severally with TEP, of an undivided one-half interest in all facilities and personal property used in common between Unit No. 1 and Unit No. 2 of the Springerville Generating Station. San Carlos is not the operator of Unit No. 2 or any of such common facilities.

C. SRI was incorporated under the laws of the State of Delaware and is a wholly-owned subsidiary of TEP. SRI was formed primarily to invest in financial assets.

1. Santa Cruz Resources Inc. was incorporated under the laws of the State of Delaware and is a wholly-owned subsidiary of SRI. Santa Cruz Resources Inc. held an investment in a financial service company.

D. TRI was incorporated under the laws of the State of Delaware and is a wholly-owned subsidiary of TEP. TRI was formed primarily to invest in financial assets.

1. Sabino Investing Inc. was incorporated under the laws of the State of Delaware and is a wholly-owned subsidiary of TRI. Sabino Investing Inc. holds certain real estate assets.

E. Tucsonel Inc. was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of TEP. Tucsonel Inc. is presently inactive.

F. Inncom International, Inc. was incorporated under the laws of the State of Delaware and is approximately 15% owned by TEP. Inncom International, Inc. was formed to provide demand-side and energy efficiency services.

G. TruePricing, Inc. was incorporated under the laws of the State of Delaware and is approximately 24% owned by TEP. TruePricing, Inc. was formed to develop technology services that provide pricing and other related information to consumers for a wide variety of products, including utility services.

II. Millennium Energy Holdings, Inc. ("Millennium") was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of UniSource Energy. Millennium holds all of the stock of Advanced Energy Technologies, Inc. ("AET"), Ion International, Inc. ("Ion"), MEH Corporation ("MEH"), Nations Energy Corporation ("Nations"), Southwest Energy Solutions, Inc. ("SES"), SWPP Investment Company ("SWPP") and a portion of the voting stock of MicroSat Systems, Inc.

A. AET was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of Millennium. AET was formed to develop certain distributed energy projects, as well as renewable energy sources.

1. Global Solar Holdings, L.L.C. ("Global Solar") (formerly known as Global Solar Energy, L.L.C.) was organized under the laws of the State of Arizona and is 66.6% owned by AET. Global Solar was formed to engage in the manufacture and sale of thin-film photovoltaic modules for distributed energy applications.

a. Global Energy Solutions, Inc. was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of Global Solar. Global Energy Solutions, Inc. was formed to hold the stock of Global Solar Energy, Inc., Infinite Power Solutions, Inc. and SOFC, Inc.

i. Global Solar Energy, Inc. was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of Global Energy Solutions, Inc. Global Solar Energy, Inc. was formed to engage in the research development, and commercialization of thin-film photovoltaic materials and devices for commercial, residential, industrial and military applications.

(1) Global Solar Energy International Holdings was organized under the laws of the Cayman Islands and is a wholly-owned subsidiary of Global Solar Energy, Inc. Global Solar Energy International Holdings was formed to serve as an investment holding company for Global Solar Energy (India) Limited.

(a) Global Solar Energy Technologies was organized under the laws of Mauritius and is a wholly-owned subsidiary of Global Solar

Energy International Holdings. Global Solar Energy Technologies was formed to serve as an investment holding company for Global Solar Energy (India) Limited.

(i) Global Solar Energy (India) Limited was organized under the laws of the Republic of India and is owned 50% by Global Solar Energy Technologies. Global Solar Energy (Ltd.), India was formed to engage in the research, development, and commercialization of thin-film photovoltaic materials and devices for commercial, residential, industrial and military applications in India.

ii. Infinite Power Solutions, Inc. was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of Global Energy Solutions, Inc. Infinite Power Solutions, Inc. was formed to engage in the research, development and commercialization of thin-film lithium batteries.

iii. SOFC, Inc. was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of Global Energy Solutions, Inc. SOFC, Inc. was formed to engage in the research, development and commercialization of solid oxide fuel cell technologies.

B. Ion was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of Millennium. Ion was formed to provide energy services to commercial users of gas and electricity.

C. MEH was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of Millennium. MEH was formed to hold an interest in NewEnergy, Inc, (previously known as New Energy Ventures, Inc.). On July 23, 1999, MEH sold all of its interest in NewEnergy, Inc. to a third party.

D. MicroSat Systems, Inc. was incorporated under the laws of the State of Colorado and is 49% owned by Millennium. MicroSat Systems, Inc. was formed to conduct research and development and to commercialize micro satellite systems.

E. Nations was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of Millennium. Nations was formed to develop and invest in independent power projects in global energy markets, including QFs, EWGs and FUCOs, located in the United States and abroad.

1. Nations-Colorado Energy Corporation ("Nations-Colorado") was incorporated under the laws of the State of Delaware and is a wholly-owned subsidiary of Nations. Nations-Colorado is presently inactive and in the process of being dissolved.

2. Nations Energy-Chalmette, LLC was formed under the laws of the State of Delaware and is a wholly-owned subsidiary of Nations. Nations Energy-Chalmette, LLC was formed to own and operate an electric and thermal energy generating facility in Chalmette, Louisiana. In 2000, Nations assigned its interest in the Chalmette Project to a third party.

3. Nations International Holdings, Ltd. was incorporated under the laws of the Cayman Islands and is a wholly-owned subsidiary of Nations. Nations International Holdings, Ltd. was formed to hold an interest, through its subsidiary Nations Curacao Ltd., in an independent power project in Curacao.

a. Nations Curacao Ltd. was incorporated under the laws of the Cayman Islands and is a wholly-owned subsidiary of Nations International Holdings, Ltd. Nations Curacao Ltd. was formed to invest in an independent power project located in

Curacao. See Item 4 and Exhibit B for a description of the Curacao project and related structure.

b. Nations Curacao Operating Ltd. was incorporated under the laws of the Cayman Islands and is a wholly-owned subsidiary of Nations International Holdings, Ltd. Nations Curacao Operating Ltd. was formed to operate or contract with others to operate the independent power project being developed and owned by Nations International Holdings, Ltd. or subsidiaries thereof.

4. Nations International Ltd. was incorporated under the laws of the Cayman Islands and is a wholly-owned subsidiary of Nations. Nations International Ltd. was formed to invest in international independent power projects. Nations International Ltd. owns a 40% interest in Corporacion Panamena de Energia S.A., a Panama company, ("COPESA"), which owns a power project located in Panama.

a. Biomasa Generacion, S. de R.L. de C.V. was formed under the laws of Honduras and is 91% owned by Nations International Ltd. Biomasa Generacion, S. de R.L. de C.V. was formed to develop and own biomass-fueled non-utility generating projects in Honduras and is currently inactive.

b. Nations BioGen Ltd. was incorporated under the laws of the Cayman Islands and is a wholly-owned subsidiary of Nations International Ltd. Nations BioGen Ltd. was formed to invest in international independent power projects and is currently inactive.

c. Nations Panama Energy Corporation was organized under the laws of the Republic of Panama and is a wholly-owned subsidiary of Nations International, Ltd. Nations Panama Energy Corporation was formed to structure and

develop projects for the generation, transmission and commercialization of electric power.

d. Suministradora de Materials Organicos, S.R.L. de C.V. was formed under the laws of Honduras and is 91% owned by Nations International Ltd. Suministradora de Materials Organicos, S.R.L. de C.V. was formed to administer fuel supply to biomass projects in Honduras and is currently inactive.

F. SES was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of Millennium. SES was formed to provide electrical contracting services statewide to commercial, industrial and governmental customers in both high voltage and inside wiring capacities.

G. SWPP was incorporated under the laws of the State of Arizona and is a wholly-owned subsidiary of Millennium. SWPP was formed to manufacture and sell concrete utility products.

1. Sentinel Concrete Utility Poles, L.L.C. was formed under the laws of the State of Arizona and is 50% owned by SWPP. Sentinel Concrete Utility Poles, L.L.C. was formed to market and distribute concrete utility poles and products.

2. SWPP International Ltd. was incorporated under the laws of the Cayman Islands and is a wholly-owned subsidiary of SWPP. SWPP International Ltd. was formed to invest in a Mexican joint venture(s) related to the manufacturing and selling of concrete utility poles.

a. Productos de Concreto Internacionales, S. de R.L. de C.V. was formed under the laws of Mexico and is 50% owned by SWPP International

Ltd. Productos de Concreto Internacionales, S. de R.L. de C.V. was formed to manufacture in Mexico and sell concrete utility poles and products.

UniSource Energy controls, directly or indirectly, less than 10% of the "voting securities" of the following companies: None.

2. A brief description of the properties of claimant[s] and each of its subsidiary public utility companies used for the generation, transmission and distribution of electric energy for sale, or for the production, transmission and distribution of natural or manufactured gas, indicating the location of principal generating plants, transmission lines, producing fields, gas manufacturing plants, and electric and gas distribution facilities, including all such properties which are outside the State in which claimant[s] and its subsidiaries are organized and all transmission or pipelines which deliver or receive electric energy or gas at the borders of such State.

UniSource Energy does not directly own any property used for the generation, transmission and distribution of electric energy for sale, or for the production, transmission and distribution of natural or manufactured gas.

As of December 31, 2000, TEP owned or participated in an overhead electric transmission and distribution system consisting of 511 circuit-miles of 500 kV lines, 1,122 circuit-miles of 345 kV lines, 368 circuit-miles of 138 kV lines, 434 circuit-miles of 46 kV lines and 10,915 circuit-miles of lower voltage primary lines. The underground electric distribution system is comprised of 5,928 cable miles. Approximately 77% of the poles upon which the lower voltage lines are located are owned by TEP. Electric substation capacity associated with the above-described electric system consisted of 183 substations with a total installed transformer capacity of 5,552,272 kVA. The above

facilities are all located in Arizona except for certain transmission lines consisting of 560 circuit-miles of 345 kV in which TEP has a fractional undivided interest and which are located in the State of New Mexico and deliver electric energy to TEP's Arizona transmission lines at the Arizona-New Mexico border.

Except as otherwise noted, at December 31, 2000 TEP owns or has a leasehold interest in the following generating stations:

Generating Source	Location	Net Capability MW	Operating Agent	TEP's %	Share MW
San Juan Station #1	Farmington, NM	327	PNM	50.0	164
San Juan Station #2	Farmington, NM	316	PNM	50.0	158
Navajo Station #1	Page, AZ	750	SRP	7.5	56
Navajo Station #2	Page, AZ	750	SRP	7.5	56
Navajo Station #3	Page, AZ	750	SRP	7.5	56
Four Corners Station #4	Farmington, NM	784	APS	7.0	55
Four Corners Station #5	Farmington, NM	784	APS	7.0	55
Irvington Station	Tucson, AZ	422	TEP	100.0	422
Internal Combustion Turbines	Tucson, AZ	122	TEP	100.0	122
Springerville Generating Station #1	Springerville, AZ	380	TEP	100.0	380
Springerville Generating Station #2 [1]	Springerville, AZ	380	TEP	100.0	380
				TOTAL	1,904

The electric generating stations, operating headquarters, the warehouse, service center and the electric distribution and electric transmission facilities owned by TEP are located in Arizona, except as otherwise noted. TEP, individually and in conjunction with Public Service Company of New Mexico in connection with the San Juan Station, has acquired easements and leases for transmission lines and a water diversion facility

[1] Title to Springerville #2 is held by San Carlos.

located on the Navajo Indian Reservation. TEP has also acquired easements for transmission facilities, related to the San Juan and Navajo Generating Stations, across the Zuni, Navajo and Tohono O'Odham Indian Reservations.

Various undivided interests in the common facilities at the Irvington Generating Station which serve Unit 4 were sold and are leased back by TEP.

The 50% undivided interest of San Carlos in the common facilities at the Springerville Generating Station were sold by San Carlos and leased back by TEP and San Carlos, jointly and severally. The coal-handling facilities at the Springerville Generating Station were sold and are leased back by TEP. TEP leases Springerville Unit 1, the fuel handling facilities for Springerville, and an undivided 50% interest in the facilities common to Unit 1 and Unit 2 through sale/leaseback arrangements. San Carlos holds title to Unit 2 of the Springerville Generating Station.

3. The following information for the last calendar year with respect to claimant[s] and each of its subsidiary public utility companies:

a. Number of kWh of electric energy sold (at retail or wholesale), and Mcf of natural or manufactured gas distributed at retail.

	Electricity	Gas
UniSource Energy	None	None
TEP	14,395,267,822	None
San Carlos	None	None

b. Number of kWh of electric energy and Mcf of natural or manufactured gas distributed at retail outside the State in which each company is organized.

None.

c. Number of kWh of electric energy and Mcf of natural or manufactured gas sold at wholesale outside the State in which each such company is organized, or at the State line.

	Electricity	Gas
UniSource Energy	None	None
TEP	4,290,723,700	None
San Carlos	None	None

d. Number of kWh of electric energy and Mcf of natural or manufactured gas purchased outside the State in which each such company is organized or at the State line.

	Electricity	Gas
UniSource Energy	None	None
TEP	2,981,407,000	None
San Carlos	None	None

4. The following information for the reporting period with respect to claimant[s] and each interest it holds directly or indirectly in an EWG or a foreign utility company, stating monetary amounts in United States dollars:

a. Name, location, business address and description of the facilities used by the EWG or foreign utility company for the generation, transmission and distribution of electric energy for sale or for the distribution at retail of natural or manufactured gas.

Nations, an Arizona corporation, acting on behalf of Curacao Utilities Company, N.V., a Netherlands Antilles Company ("CUC") and Corporacion Panamena de Energia S.A., a Panama company ("COPESA") hereby notifies the Commission, pursuant to Section 33(a) of the Act and Rule 57 thereunder, that during the reporting

period, each of CUC and COPESA was a foreign utility company within the meaning of Section 33(a) of the Act.

The name and business address for CUC and COPESA are as follows:

CUC
Ara Hill Top Building
Pletterijweg 1
P.O. Box 3627
Curacao, Netherlands Antilles

COPESA
Avenida Federico Boyd
E.D.F. Scotia Plaza
PISO VI Panama City, Panama

Listed below is a description of the CUC and COPESA facilities:

A. CUC will own an electric generating facility of approximately 160 MW located on the island of Curacao, Netherlands Antilles. The facility will deliver up to 64 MW of electricity to the Isla oil refinery, together with compressed air, water and steam. Additional excess electricity will be delivered to Integrated Utility Holding, N.V., the island electric utility company. The facility will be fueled by oil refinery byproducts, including pitch and refinery gas.

The facility will consist of approximately 70 MW of existing electric generating facilities, which will be upgraded, and 90 MW of new generating facilities. The project is currently under construction by Mitsubishi Corporation and is scheduled to come on-line in 2003.

B. COPESA owns an approximately 42 MW diesel-fired combustion turbine facility located in Panama City, Panama. The project sells electricity to distribution companies and large industrial users in Panama.

b. Name of each system company that holds an interest in such EWG or foreign utility company; and description of the interest held.

The ownership of CUC is as follows:

A. Nations Curacao, Ltd., a wholly-owned subsidiary of Nations International Holdings, Ltd. (which in turn is a wholly-owned subsidiary of Nations), owns a 50% interest in Curacao Energy Company ("CEC"). Mitsubishi Corporation owns the other 50% interest in CEC. CEC in turn owns 51% of the common stock of CUC Holdings, N.V. ("CUC Holdings"), which in turn owns 100% of the common stock of CUC.

B. Integrated Utility Holding, N. V. owns 49% of the common stock of CUC Holdings.

C. Refineria di Korson, N. V. ("RdK") will provide at commercial operation approximately $34 million in preferred equity in CUC, and Aqualectra will provide $8 million in additional preferred funding to CUC Holdings.

Nations is a wholly-owned subsidiary of Millennium, an intermediary holding company for the unregulated business of UniSource Energy, whose electric utility subsidiary is subject to retail rate regulation by the Arizona Corporation Commission. Nations is primarily engaged in developing independent power projects.

The ownership of COPESA is as follows:

A. Nations Energy International Ltd., a wholly-owned subsidiary of Nations, holds a 40% equity interest in COPESA.

B. Electric Machinery Enterprises, a Florida company, holds a 21.67% equity interest in COPESA.

C. Proquim, a Panama company, owns a 22.67% equity interest in COPESA.

D. Roberto Roy, a Panamanian resident, holds a 14.67% equity interest in COPESA.

E. The remaining 1.0% equity interest in COPESA is held by certain Panamanian individuals.

c. Type and amount of capital invested, directly or indirectly, by the holding company claiming exemption; any direct or indirect guarantee of the security of the EWG or foreign utility company by the holding company claiming exemption; and any debt or other financial obligation for which there is recourse, directly or indirectly, to the holding company claiming exemption or another system company, other than the EWG or foreign utility company.

During 2000, approximately $3 million was invested in CUC by Nations' subsidiaries and characterized as equity. Project debt with respect to CUC is non-recourse to Nations, its subsidiaries and affiliates, including the holding company.

As of December 15, 2000, the date of financial closing for the Project, Nations Curacao, Ltd. has committed to invest $10.2 million in common equity in CUC, which commitment has been supported by a cash collateral deposit. In addition, approximately $10 million in contingent equity obligations has been provided by Nations Curacao, Ltd. (or its indirect parent, Nations) in the form of cash collateral deposits. Nations Curacao, Ltd. has also effectively guaranteed the funding of $5.7 million in preferred equity that is expected to be provided by RdK, a Curacao government entity, at commercial operation

of the Project. This preferred equity guaranty is expected to be removed by the provision by RdK of a letter of credit in the amount of $5.7 million in 2002.

During 2000, no additional amounts were invested by Nations Energy International Ltd. as additional equity in COPESA. Project debt in COPESA is non-recourse.

d. Capitalization and earnings of the EWG or foreign utility company during the reporting period.

As of December 2000, the CUC Project was capitalized at approximately $21 million. During 2000, CUC reported a net loss of approximately $1 million. The CUC Project itself achieved financial closing on December 15, 2000, and is now under construction.

The COPESA Project was capitalized at approximately $23 million. During 2000, COPESA reported a net loss of approximately $1 million.

e. Identify any service, sales or construction contract(s) between the EWG or foreign utility company and a system company, and describe the services to be rendered or goods sold and fees or revenues under such agreement(s).

Inapplicable.

EXHIBIT A

Consolidating statements of income of the claimants and their subsidiary companies for the last calendar year, together with the consolidating balance sheets of claimants and their subsidiary companies as of the close of such calendar year.

This statement is being filed by TEP to claim exemption in the event that San Carlos Resources Inc. is an "electric utility company" under the Act. However, the filing of this statement is not an acknowledgment by TEP that San Carlos Resources Inc. is an "electric utility company."

The above-named claimants have caused this statement to be duly executed on their behalf by its authorized officer on this 28th day of February, 2001.

UNISOURCE ENERGY CORPORATION

By: Karen G. Kissinger

Karen G. Kissinger
Vice President, Controller and
Principal Accounting Officer

TUCSON ELECTRIC POWER COMPANY

By: Karen G. Kissinger

Karen G. Kissinger
Vice President, Controller and Chief
Information Officer

(Corporate Seal)

Attest: Linda Kennedy

Name, title and address of officer to whom notices and correspondence concerning this statement should be addressed: Vincent Nitido, Vice President and General Counsel, UniSource Energy Corporation, One South Church Avenue, Suite 1820, Tucson, Arizona 85701

EXHIBIT A

<TABLE>

UNISOURCE ENERGY CORPORATION
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2000
(in thousands)

<CAPTION>

	UNISOURCE ENERGY CORP.	TUCSON ELECTRIC POWER CO.*	MILLENNIUM ENERGY HOLDINGS**	CONSOL. ADJUST.	2000 CONSOL.
<S>	<C>	<C>	<C>	<C>	<C>
ASSETS					
Utility Plant	$	$ 2,389,587	$	$	$ 2,389,587
Plant in Service		741,446			741,446
Utility Plant Under Capital Leases		94,789			94,789
Construction Work in Progress					
Total Utility Plant		3,225,822			3,225,822
Less Accumulated Depreciation and Amortization		(1,186,035)			(1,186,035)
Less Accumulated Depreciation of Capital Lease Assets		(333,497)			(333,497)
Total Utility Plant - Net		1,706,290			1,706,290
Investments and Other Property	401,635	92,334	29,477	(401,635)	121,811
Note Receivable from UniSource Energy		70,132		(70,132)	-
Current Assets					
Cash and Cash Equivalents	109	88,712	74,183	-	163,004
Accounts Receivable	90,757	116,580	32,737	(124,332)	115,742
Materials and Fuel	-	43,847	552	-	44,399
Deferred Income Taxes - Current	6,716	10,662	412	-	17,790
Prepaid Pension Costs	-	18,278	-	-	18,278
Millennium Project Construction Deposits	-	-	17,282	-	17,282
Other	-	6,585	12,688	-	19,273
Total Current Assets	97,582	284,664	137,854	(124,332)	395,768

Deferred Debits - Regulatory Assets					
Transition Recovery Asset		353,283			353,283
Income Taxes Recoverable Through Future Revenues		73,459			73,459
Other Regulatory Assets		7,690			7,690
Deferred Debits - Other		13,083			13,083
Total Deferred Debits		447,515			447,515
Total Assets	$ 499,217	$ 2,600,935	$ 167,331	$ (596,099)	$ 2,671,384

* This column reflects TEP on a consolidated basis. See 1.I. for information regarding TEP and its subsidiaries.

** This column reflects Millennium Energy Holdings on a consolidated basis. See 1.II. for information regarding Millennium and its subsidiaries.

UniSource Energy and TEP use the following methods to report investments in their subsidiaries or other companies:

- Consolidation: When we own a majority of the voting stock of a subsidiary, we combine the accounts of the subsidiary with our accounts. We eliminate intercompany balances and transactions when we combine these accounts.

- The Equity Method: We use the equity method to report corporate joint ventures, partnerships, and affiliated companies when we hold a 20% to 50% voting interest or we have the ability to exercise significant influence over the operating and financial policies of the investee company. Under the equity method, we report:

  - Our interest in the equity of an entity as an investment on our balance sheet; and
  - Our percentage share of the net income (loss) from the entity as "other income" in our income statements.

</TABLE>

EXHIBIT A

<TABLE>

UNISOURCE ENERGY CORPORATION
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2000
(in thousands)

<CAPTION>

	UNISOURCE ENERGY CORP.	TUCSON ELECTRIC POWER CO.	MILLENNIUM ENERGY HOLDINGS	CONSOL. ADJUST.	2000 CONSOL.
<S>	<C>	<C>	<C>	<C>	<C>
CAPITALIZATION AND OTHER LIABILITIES					
Capitalization					
Common Stock	$ 655,539	$ 645,366	$ -	$ (645,366)	$ 655,539
Additional Paid-In Capital	-	-	91,000	(91,000)	-
Accumulated Deficit	(283,370)	(349,706)	(10,286)	359,992	(283,370)
Common Stock Equity	372,169	295,660	80,714	(376,374)	372,169
Capital Lease Obligations	-	857,519	310	-	857,829
Long-Term Debt	95,393	1,132,395	-	(95,393)	1,132,395
Total Capitalization	467,562	2,285,574	81,024	(471,767)	2,362,393
Current Liabilities					
Current Obligations Under Capital Leases	-	21,031	116		21,147
Current Maturities of Long-Term Debt	-	1,725	-		1,725
Accounts Payable	30,659	73,955	85,609	(124,332)	65,891
Interest Accrued	-	63,852	-		63,852
Taxes Accrued	743	25,485	583		26,811
Accrued Employee Expenses		14,152	253		14,405
Other	-	5,671	2,876		8,547
Total Current Liabilities	31,402	205,871	89,437	(124,332)	202,378
Deferred Credits and Other Liabilities					
Deferred Income Taxes - Noncurrent	253	53,980	(3,198)	-	51,035
Other	-	55,510	68	-	55,578
Total Deferred Credits and Other Liabilities	253	109,490	(3,130)	-	106,613
Total Capitalization and Other Liabilities	$ 499,217	$ 2,600,935	$ 167,331	$ (596,099)	$ 2,671,384

</TABLE>

<TABLE>

EXHIBIT A

UNISOURCE ENERGY CORPORATION
CONSOLIDATING STATEMENT OF INCOME (LOSS)
TWELVE MONTHS ENDED DECEMBER 31, 2000
(in thousands except for per share amounts)

<CAPTION>

	UNISOURCE ENERGY CORP.	TUCSON ELECTRIC POWER CO.	MILLENNIUM ENERGY HOLDINGS	CONSOL. ADJUST.	2000 CONSOL.
<S>		<C>	<C>	<C>	<C>
Operating Revenues					
Electric Sales	$	$ 664,646	$	$	$ 664,646
Electric Sales for Resale		359,814			359,814
Other	-	3,908	8,593	(3,292)	9,209
Total Operating Revenues	-	1,028,368	8,593	(3,292)	1,033,669
Operating Expenses					
Fuel		239,939			239,939
Purchased Power		207,596			207,596
Coal Contract Amendment Fee		13,231			13,231
Other Operations		122,608	22,362	(3,292)	141,678
Maintenance and Repairs		39,714			39,714
Depreciation and Amortization		113,507	531		114,038
Amortization of Transition Recovery Asset		17,008			17,008
Taxes Other Than Income Taxes		49,445	692		50,137
Income Taxes		19,036	(6,111)		12,925
Total Operating Expenses	-	822,084	17,474	(3,292)	836,266
Operating Income	-	206,284	(8,881)	-	197,403
Other Income (Deductions)					
Income Taxes	3,440	(7,530)	1,860	-	(2,230)
Interest Income	704	8,550	4,278	-	13,532
Interest Income - Note Receivable from UniSource Energy	-	9,329	-	(9,329)	-
Other Income (Deductions)	47,076	820	(1,248)	(47,116)	(468)
Total Other Income (Deductions)	51,220	11,169	4,890	(56,445)	10,834
Interest Expense					

Long-Term Debt	9,329	66,377		(9,329)	66,377
Interest on Capital Leases		92,658	54		92,712
Interest Imputed on Losses Recorded at Present Value		198			198
Other Interest Expense		7,051	43	(35)	7,059
Total Interest Expense	9,329	166,284	97	(9,364)	166,346
Net Income (Loss)	$ 41,891	$ 51,169	$ (4,088)	$ (47,081)	$ 41,891
Average Shares of Common Stock Outstanding (000)					32,445
Basic EPS					$1.29
Diluted EPS					$1.27

</TABLE>

<TABLE>

TUCSON ELECTRIC POWER COMPANY
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2000
(in thousands)

EXHIBIT A

<CAPTION>

	TUCSON ELECTRIC POWER CO.	INVESTMENT SUBS *	CONSOL. ADJUST.	2000 CONSOL.
<S>	<C>	<C>	<C>	<C>
ASSETS				
Utility Plant				
Plant in Service	$ 2,389,587	$	$	$ 2,389,587
Utility Plant Under Capital Leases	741,446			741,446
Construction Work in Progress	94,789			94,789
Total Utility Plant	3,225,822			3,225,822
Less Accumulated Depreciation and Amortization	(1,186,035)			(1,186,035)
Less Accumulated Depreciation of Capital Lease Assets	(333,497)			(333,497)
Total Utility Plant - Net	1,706,290			1,706,290
Investments and Other Property	89,867	5,204	(2,737)	92,334
Note Receivable from UniSource Energy	70,132			70,132
Current Assets				
Cash and Cash Equivalents	87,271	1,441		88,712
Accounts Receivable	116,375	4,589	(4,384)	116,580
Materials and Fuel	43,847			43,847
Deferred Income Taxes - Current	10,662			10,662
Prepaid Pension Costs	18,278			18,278
Other	6,585			6,585
Total Current Assets	283,018	6,030	(4,384)	284,664

Deferred Debits - Regulatory Assets				
Transition Recovery Asset	353,283			353,283
Income Taxes Recoverable Through Future Revenues	73,459			73,459
Other Regulatory Assets	7,690			7,690
Deferred Debits - Other	13,083			13,083
Total Deferred Debits	447,515			447,515
Total Assets	$ 2,596,822	$ 11,234	$ (7,121)	$ 2,600,935

* This column includes all the consolidated amounts, as applicable, of the directly owned subsidiaries of TEP. See 1.I. for information regarding the subsidiaries owned by TEP.

</TABLE>

<TABLE>

EXHIBIT A

TUCSON ELECTRIC POWER COMPANY
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2000
(in thousands)

<CAPTION>

	TUCSON ELECTRIC POWER CO.	INVESTMENT SUBS	CONSOL. ADJUST.	2000 CONSOL.
<S>	<C>	<C>	<C>	<C>
CAPITALIZATION AND OTHER LIABILITIES				
Capitalization				
Common Stock	$ 651,723	$ 2	$ (2)	$ 651,723
Premium on Capital Stock		263,778	(263,778)	-
Capital Stock Expense	(6,357)			(6,357)
Accumulated Deficit	(357,257)	(261,043)	268,594	(349,706)
Common Stock Equity	288,109	2,737	4,814	295,660
Capital Lease Obligations	857,519			857,519
Long-Term Debt	1,132,395			1,132,395
Total Capitalization	2,278,023	2,737	4,814	2,285,574
Current Liabilities				
Current Obligations Under Capital Leases	21,031			21,031
Current Maturities of Long-Term Debt	1,725			1,725
Accounts Payable	78,289	50	(4,384)	73,955
Interest Accrued	63,852			63,852
Taxes Accrued	25,317	168		25,485
Accrued Employee Expenses	14,152			14,152
Other	5,571	100		5,671
Total Current Liabilities	209,937	318	(4,384)	205,871
Deferred Credits and Other Liabilities				
Deferred Income Taxes - Noncurrent	53,352	42	586	53,980
Other	55,510	8,137	(8,137)	55,510
Total Deferred Credits and Other Liabilities	108,862	8,179	(7,551)	109,490
Total Capitalization and Other Liabilities	$ 2,596,822	$ 11,234	$ (7,121)	$ 2,600,935

</TABLE>

<TABLE>

TUCSON ELECTRIC POWER COMPANY
CONSOLIDATING STATEMENT OF INCOME
TWELVE MONTHS ENDED DECEMBER 31, 2000
(in thousands)

EXHIBIT A

<CAPTION>

	TUCSON ELECTRIC POWER CO.	INVESTMENT SUBS	CONSOL. ADJUST.	2000 CONSOL.
<S>	<C>	<C>	<C>	<C>
Operating Revenues				
Electric Retail Sales	$ 664,646	$ -	$ -	$ 664,646
Electric Sales for Resale	359,814	-	-	359,814
Other	3,909	-	(1)	3,908
Total Operating Revenues	1,028,369	-	(1)	1,028,368
Operating Expenses				
Fuel	239,939			239,939
Purchased Power	207,596			207,596
Coal Contract Amendment Fee	13,231			13,231
Other Operations	122,608			122,608
Maintenance and Repairs	39,714			39,714
Depreciation and Amortization	113,507			113,507
Amortization of Transition Recovery Asset	17,008			17,008
Taxes Other Than Income Taxes	49,445			49,445
Income Taxes	19,036			19,036
Total Operating Expenses	822,084	-	-	822,084
Operating Income	206,285	-	(1)	206,284
Other Income (Deductions)				
Income Taxes	(7,467)	(63)	-	(7,530)
Interest Income	8,474	76	-	8,550
Interest Income - Note Receivable from UniSource Energy	9,329	-	-	9,329
Other Income	911	371	(462)	820
Total Other Income (Deductions)	11,247	384	(462)	11,169

Interest Expense				
Long-Term Debt	66,377	-	-	66,377
Interest on Capital Leases	92,658	-	-	92,658
Interest Imputed on Losses Recorded at Present Value	198	-	-	198
Short-Term Debt	79	241	(320)	-
Other Interest Expense	7,051	-	-	7,051
Total Interest Expense	166,363	241	(320)	166,284
Net Income	$ 51,169	$ 143	$ (143)	$ 51,169

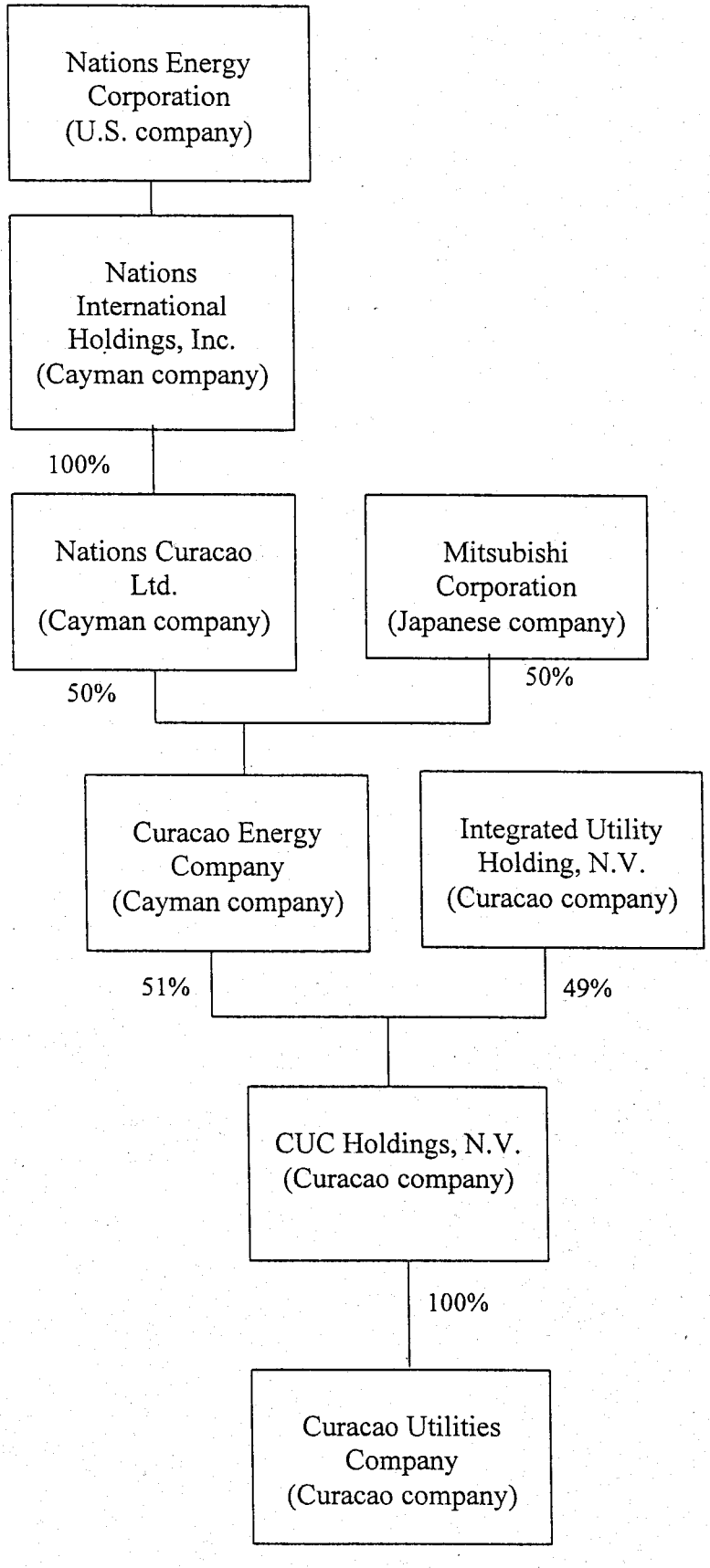
</TABLE>

EXHIBIT B

An organizational chart showing the relationship of each EWG or foreign utility company to associate companies in the holding company system.

See attached organizational charts for CUC and COPESA.

CUC PROJECT OWNERSHIP STRUCTURE



COPESA PROJECT OWNERSHIP STRUCTURE